

**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER [ ], 2016**

**NEW ISSUE—BOOK-ENTRY-ONLY**

**Ratings: See “RATINGS” herein.**

*In the opinion of Nixon Peabody LLP, as Bond Counsel (“Bond Counsel”), under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Department described herein, interest on the Series 2016 Bonds (as defined herein) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), except that no opinion is expressed as to the exclusion of interest on the Series 2016A Bonds (as defined herein) from gross income for any period during which such Series 2016A Bonds are held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities refinanced with the proceeds of the Series 2016A Bonds, or by a “related person.” Bond Counsel is further of the opinion that interest on the Series 2016A Bonds is treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel is also of the opinion that interest on the Series 2016B Bonds and the Series 2016C Bonds (as defined herein) is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel is further of the opinion that interest on the Series 2016 Bonds is exempt from personal income taxes of the State of California under present state law. See “TAX MATTERS” herein regarding certain other tax considerations.*

[Port Logo]

\$[ ]\*

**HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES**

\$[ ]\*  
**Refunding Revenue Bonds**  
**2016 Series A**  
**(AMT)**

\$[ ]\*  
**Refunding Revenue Bonds**  
**2016 Series B**  
**(Non-AMT)**

\$[ ]\*  
**Refunding Revenue Bonds**  
**2016 Series C**  
**(Non-AMT) (Green Bonds)**

**Dated: Date of Delivery**

**Due: August 1, as shown on inside front cover**

The Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2016 Series A (the “Series 2016A Bonds”), the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2016 Series B (the “Series 2016B Bonds”), and the Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2016 Series C (Green Bonds) (the “Series 2016C Bonds,” and together with the Series 2016A Bonds, and the Series 2016B Bonds, the “Series 2016 Bonds”) are being issued to (a) refund and defease the Refunded Bonds (as described herein) to generate debt service savings for the Harbor Department of the City of Los Angeles (the “Department”), (b) [fund a debt service reserve fund] and (c) pay the costs of issuance of the Series 2016 Bonds. The Series 2016 Bonds are being issued under and pursuant to Section 609 of the Charter of the City of Los Angeles, California, relevant ordinances of the City of Los Angeles, California, and Section 11.28.1 et seq. of the Los Angeles Administrative Code; Resolution Nos. 16-[ ] and 16-[ ] adopted by the Board of Harbor Commissioners of the City of Los Angeles (the “Board”) on August 4, 2016, and approved by the City Council of the City of Los Angeles and the Mayor of the City of Los Angeles on [ ], 2016 and [ ], 2016, respectively; Resolution Nos. 16-[ ] and 16-[ ], adopted by the Board on August 18, 2016; and an Indenture of Trust, to be dated as of October 1, 2016 (the “Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Trustee”).

The Series 2016 Bonds will be issued as fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company (“DTC”), New York, New York. Individual purchases and sales of the Series 2016 Bonds may be made in book-entry form only in denominations of \$5,000 and integral multiples thereof. Interest on the Series 2016 Bonds will be payable on February 1 and August 1, commencing on February 1, 2017. So long as the Series 2016 Bonds are held by DTC, the principal of and interest on the Series 2016 Bonds will be payable by wire transfer to DTC, which in turn will be required to remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Series 2016 Bonds, as more fully described herein. See “APPENDIX F—BOOK-ENTRY-ONLY SYSTEM.”

The Series 2016 Bonds are subject to redemption prior to maturity, as more fully described herein. See “DESCRIPTION OF THE SERIES 2016 BONDS—Redemption Provisions.”

**Maturity Schedule on Inside Front Cover**

Principal of and interest on the Series 2016 Bonds are payable solely from the Revenues and other amounts pledged under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS—Source of Payment” and “—Harbor Revenue Fund.” The Series 2016 Bonds will be issued on a parity with the Department’s outstanding Parity Obligations (as described herein). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS—Outstanding Parity Obligations” herein.

**THE SERIES 2016 BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OF LOS ANGELES, CALIFORNIA (THE “CITY”), THE STATE OF CALIFORNIA (THE “STATE”) OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, THE STATE OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, AND IN ANY EVENT THE SERIES 2016 BONDS SHALL NOT BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE CITY OR THE DEPARTMENT OTHER THAN THE REVENUES DEPOSITED INTO THE HARBOR REVENUE FUND AS PROVIDED IN THE INDENTURE AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2016 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DEPARTMENT IN CONTRAVENTION OF ANY CHARTER, STATUTORY OR CONSTITUTIONAL DEBT OR OTHER LIMITATION OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DEPARTMENT OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DEPARTMENT OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.**

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

The purchase and ownership of Series 2016 Bonds involve investment risk and may not be suitable for all investors. This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Series 2016 Bonds. Investors are advised to read the entire Official Statement, including any portion hereof included by reference, to obtain information essential to the making of an informed decision, giving particular attention to the matters discussed under "CERTAIN INVESTMENT CONSIDERATIONS." Capitalized terms used on this cover page and not otherwise defined have the meanings set forth herein.

*The Series 2016 Bonds are offered when, as, and if issued and received by the Underwriters, subject to the approval of validity by Nixon Peabody LLP, Bond Counsel to the Department, and to certain other conditions. Certain legal matters will be passed upon for the Department by the Office of the City Attorney of the City. Certain legal matters will be passed upon for the Department by Kutak Rock LLP, Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. Montague DeRose and Associates, LLC has served as Financial Advisor to the Department. It is expected that the delivery of the Series 2016 Bonds will be made through the facilities of DTC on or about October 13, 2016.*

**RBC Capital Markets**

**Citigroup**

**Loop Capital Markets**

Date of Official Statement:

## MATURITY SCHEDULE

\$[\_\_\_\_\_]\*  
**Harbor Department of the City of Los Angeles**  
**Refunding Revenue Bonds**  
**2016 Series A**  
**(AMT)**

| <u>Maturity Date</u><br><u>(August 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP No.</u> <sup>1</sup> |
|---|-----------------------------------|--------------------------------|--------------|--------------|-------------------------------|
|---|-----------------------------------|--------------------------------|--------------|--------------|-------------------------------|

\$[\_\_\_\_\_]\*  
**Harbor Department of the City of Los Angeles**  
**Refunding Revenue Bonds**  
**2016 Series B**  
**(Non-AMT)**

| <u>Maturity Date</u><br><u>(August 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP No.</u> <sup>1</sup> |
|---|-----------------------------------|--------------------------------|--------------|--------------|-------------------------------|
|---|-----------------------------------|--------------------------------|--------------|--------------|-------------------------------|

\$[\_\_\_\_\_]\*  
**Harbor Department of the City of Los Angeles**  
**Refunding Revenue Bonds**  
**2016 Series C**  
**(Non-AMT) (Green Bonds)**

| <u>Maturity Date</u><br><u>(August 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP No.</u> <sup>1</sup> |
|---|-----------------------------------|--------------------------------|--------------|--------------|-------------------------------|
|---|-----------------------------------|--------------------------------|--------------|--------------|-------------------------------|

\$ \_\_\_\_\_ % Term Bonds due August 1, 20\_\_ Yield \_\_\_\_%; Price \_\_\_\_%; CUSIP No. <sup>1</sup> \_\_\_\_\_

\* Preliminary; subject to change.

<sup>1</sup> Copyright 2016, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. The CUSIP data herein is provided by the CUSIP Service Bureau, managed on behalf of the American Bankers Association by Standard & Poor's. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the Department or the City and are provided solely for convenience and reference. The CUSIP numbers for a specific maturity are subject to change after the issuance of the Series 2016 Bonds. Neither the Department nor the Underwriters take responsibility for the accuracy of the CUSIP numbers.

**HARBOR DEPARTMENT  
OF THE CITY OF LOS ANGELES**

425 South Palos Verdes Street  
San Pedro, CA 90731

**BOARD OF HARBOR COMMISSIONERS**

Ambassador Vilma S. Martinez, President  
David Arian, Vice President  
Edward R. Renwick  
Patricia Castellanos  
Anthony Pirozzi, Jr.

**OFFICERS AND EXECUTIVES**

Eugene D. Seroka, Executive Director  
Doane Liu, Deputy Executive Director, Chief of Staff  
Marla Bleavins, Deputy Executive Director and Chief Financial Officer  
Thomas Gazsi, Chief of Public Safety and Emergency Management  
Michael DiBernardo, Deputy Executive Director, Marketing and Customer Relations  
Antonio Gioiello, Deputy Executive Director, Development  
Soheila Sajadian, Director of Debt and Treasury

**SPECIAL SERVICES**

**City Attorney**

Office of the City Attorney of the City of Los Angeles  
Michael N. Feuer, *City Attorney*  
Janna Sidley, *General Counsel*

**Trustee**

U.S. Bank National Association

**Bond Counsel**

Nixon Peabody LLP

**Disclosure Counsel**

Kutak Rock LLP

**Financial Advisor**

Montague DeRose and Associates, LLC

No dealer, broker, salesperson or other person has been authorized by the Department to give any information or to make any representations other than as set forth herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Department. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2016 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2016 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. See “INTRODUCTION—Forward-Looking Statements” herein.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12(b)(5) adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Department since the date hereof. This Official Statement is submitted in connection with the sale of the Series 2016 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The order and placement of information in this Official Statement, including the appendices, are not an indication of relevance, materiality or relative importance, and this Official Statement, including the appendices, must be read in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provision or section in this Official Statement.

THE SERIES 2016 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN, AND HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED THEREIN. THE SERIES 2016 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY COMMISSION. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2016 BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER OR YIELDS HIGHER THAN THE PUBLIC OFFERING PRICES OR YIELDS STATED ON THE INSIDE COVER PAGE OF THIS OFFICIAL STATEMENT, AND SUCH PUBLIC OFFERING PRICES OR YIELDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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**OFFICIAL STATEMENT**

\$[\_\_\_\_\_]\*

**HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES**

\$[\_\_\_\_\_]\*  
**REFUNDING REVENUE BONDS**  
**2016 SERIES A**  
**(AMT)**

\$[\_\_\_\_\_]\*  
**REFUNDING REVENUE BONDS**  
**2016 SERIES B**  
**(NON-AMT)**

\$[\_\_\_\_\_]\*  
**REFUNDING REVENUE BONDS**  
**2016 SERIES C**  
**(NON-AMT) (GREEN BONDS)**

**INTRODUCTION**

**General**

The purpose of this Official Statement, which includes the cover page, inside cover page, table of contents and appendices, is to provide certain information concerning the sale and delivery by the Harbor Department of the City of Los Angeles (the “Department”) of its \$[\_\_\_\_\_]\* Refunding Revenue Bonds, 2016 Series A (the “Series 2016A Bonds”), its \$[\_\_\_\_\_]\* Refunding Revenue Bonds, 2016 Series B (the “Series 2016B Bonds”) and its \$[\_\_\_\_\_]\* Refunding Revenue Bonds, 2016 Series C (Green Bonds) (the “Series 2016C Bonds,” and together with the Series 2016A Bonds and the Series 2016B Bonds, the “Series 2016 Bonds” or the “Bonds”). Capitalized terms used but not defined herein have the meanings ascribed to them in “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

*This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Series 2016 Bonds to potential investors is made only by means of the entire Official Statement.*

**The Department and the Port**

The Department is an independent proprietary department of the City of Los Angeles, California (the “City”), with possession, management and control of the Port of Los Angeles (the “Port”), which is located in San Pedro Bay, approximately 20 miles south of downtown Los Angeles. The Department has three major sources of revenue: (a) shipping revenue, which is a function of cargo throughput; (b) revenue from the rental of the Port’s land and buildings (i.e., revenue from permit and lease agreements); and (c) fees and royalty revenue, which is the smallest source of revenue. During Fiscal Year 2016, the Port handled 8,390,513 TEUs, as compared to 8,191,359 TEUs in Fiscal Year 2015. A “TEU” is a unit of cargo capacity often used to describe the capacity of container ships and container terminals and is based on the volume of a 20-foot long shipping container, a standard-sized metal box which can be easily transferred between different modes of transportation, such as ships, trains and trucks. According to statistics compiled by the Journal of Commerce, during calendar year 2015, the Port was the busiest container port in the United States. The Department’s fiscal year (“Fiscal Year”) begins on July 1 and ends on June 30 of the following year. In terms of physical size, the Port covers approximately 7,500 acres (4,300 acres of land and 3,200 acres of water). The Port generally encompasses approximately 43 miles of waterfront berthing and 27 terminal facilities, including eight major container cargo terminals, four break-bulk facilities, three dry bulk facilities, seven liquid bulk cargo terminals, two passenger cruise terminals, one vehicle handling facility, and two multi-use facilities. A description of the Port, the

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\* Preliminary; subject to change.

Department and certain financial and operating information concerning the Department is contained in “THE PORT AND THE DEPARTMENT.”

### **Authority for Issuance**

The Series 2016 Bonds are being issued under and pursuant to Section 609 of the Charter of the City, relevant ordinances of the City, and Section 11.28.1 et seq. of the Los Angeles Administrative Code (collectively, the “Charter”); Resolution Nos. 16-[\_\_\_\_] and 16-[\_\_\_\_] (collectively, the “Authorizing Resolutions”) adopted by the Board of Harbor Commissioners of the City of Los Angeles (the “Board”) on August 4, 2016 and approved by the City Council of the City (the “City Council”) and the Mayor of the City (the “Mayor”) on [\_\_\_\_], 2016 and [\_\_\_\_], 2016, respectively; Resolution Nos. 16-[\_\_\_\_] and 16-[\_\_\_\_] (collectively, the “Document Resolutions,” and together with Authorizing Resolutions, the “Resolutions”) adopted by the Board on August 18, 2016; and an Indenture of Trust, to be dated as of October 1, 2016 (the “Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Trustee”).

### **Purpose of the Series 2016 Bonds**

Proceeds from the sale of the Series 2016 Bonds will be used to refund and defease the Refunded Bonds (as defined herein) to generate debt service savings for the Department, [make a deposit to the Reserve Fund (as defined herein),] and pay costs of issuance of the Series 2016 Bonds, all as further described herein. See “PLAN OF REFUNDING AND APPLICATION OF SERIES 2016 BOND PROCEEDS.”

### **Security for the Series 2016 Bonds**

The principal of and interest on the Series 2016 Bonds are payable from, and secured by a pledge of and lien on, the Revenues (as defined herein) and other amounts pledged under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS—Source of Payment” and “—Harbor Revenue Fund.”

THE SERIES 2016 BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY, THE STATE OF CALIFORNIA (THE “STATE”) OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, THE STATE OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, AND IN ANY EVENT THE SERIES 2016 BONDS WILL NOT BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE CITY OR THE DEPARTMENT OTHER THAN THE REVENUES DEPOSITED INTO THE HARBOR REVENUE FUND AS PROVIDED IN THE INDENTURE AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2016 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DEPARTMENT IN CONTRAVENTION OF ANY CHARTER, STATUTORY OR CONSTITUTIONAL DEBT OR OTHER LIMITATION OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DEPARTMENT OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DEPARTMENT OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

### **Parity Obligations**

As of September 1, 2016, the Department had \$909,425,000 aggregate principal amount of Parity Obligations (including the Refunded Bonds) outstanding. The principal of and interest on the Parity Obligations are secured by a pledge of and lien on Revenues on parity with the Series 2016 Bonds.

Subject to the satisfaction of certain conditions set forth in the Indenture, the Department may issue additional bonds, notes or other evidence of indebtedness secured by a pledge of and lien on Revenues on parity with the Series 2016 Bonds. Pursuant to the Indenture, obligations of the Department secured by a pledge of and lien on Revenues senior to the payment of principal of or interest on the Parity Obligations (including the Series 2016 Bonds) are prohibited. The Department has no such senior obligations outstanding. The Indenture does not prohibit the Department from issuing obligations secured by a pledge of and lien on Revenues subordinate to the payment of principal of and interest on the Parity Obligations (including the Series 2016 Bonds). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS—Outstanding Parity Obligations.”

### **Rate Covenant**

The Department has covenanted under the Indenture that it will fix rates, tolls and charges, rentals for leases, permits and franchises, and compensations or fees for franchises and licenses, subject to the approval of or submission to the City Council only in those instances and in such manner as may be provided in the Charter, and collect such charges, rentals, compensations and fees, such as to provide revenues, after payment of all Operation and Maintenance costs for each Fiscal Year, which will at least equal 125% of Debt Service (as defined herein), any amounts required to be paid to the provider of any Common Reserve Security Device (as defined herein) pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture for such Fiscal Year and during such period the City Council will, when its approval is required by the Charter, approve rates, tolls, charges, rentals, compensations and fees so fixed by the Department, sufficient for the purposes aforesaid; no ordinance adopted by the City Council approving any rate, toll, charge, rental compensation or fee so fixed by the Department will be subject to referendum. “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS—Rate Covenant”

### **Continuing Disclosure**

In connection with the issuance of the Series 2016 Bonds, the Department will agree to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access system (“EMMA”), for purposes of Rule 15c2-12(b)(5) (“Rule 15c2-12”) adopted by the U.S. Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as amended, certain annual financial information and operating data relating to the Department and the Port, and, notice of certain enumerated events. These covenants are made in order to assist the Underwriters (as defined herein) in complying with Rule 15c2-12. See “CONTINUING DISCLOSURE” and “APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

### **Forward-Looking Statements**

This Official Statement, including the appendices hereto, contains statements relating to future results that are forward-looking statements. When used in this Official Statement, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. See “CERTAIN INVESTMENT CONSIDERATIONS—Forward-Looking Statements.”

## **Additional Information**

Brief descriptions of the Series 2016 Bonds, the Charter, the Resolutions, the Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Department and from other sources believed to be reliable. The information herein is subject to change without notice, and the delivery of this Official Statement will under no circumstances create any implication that there has been no change in the affairs of the Department or the Port since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Department or the Underwriters and the purchasers or Owners of any of the Series 2016 Bonds. The Department maintains a website, and a presence on a variety of social media and internet platforms, the information on such platforms is not part of this Official Statement, has not and is not incorporated by reference herein, and should not be relied upon in deciding whether to invest in the Series 2016 Bonds.

## **PLAN OF REFUNDING AND APPLICATION OF SERIES 2016 BOND PROCEEDS**

### **Plan of Refunding**

The Series 2016 Bonds are being issued to (a) current refund [all or a portion of] the Department's outstanding Refunding Revenue Bonds, 2006 Series A (the "Refunded Series 2006A Bonds"), (b) current refund [all or a portion of] of the Department's outstanding Refunding Revenue Bonds, 2006 Series B (the "Refunded Series 2006B Bonds"), (c) current refund [all or a portion of] [the Department's outstanding Refunding Revenue Bonds, 2006 Series C (the "Refunded Series 2006C Bonds" and together with the Refunded Series 2006A Bonds and the Refunded Series 2006B Bonds, the "Current Refunded Bonds"), and (d) [advance refund [all or a portion of] of the Department's outstanding Revenue Bonds, 2009 Series B (the "Refunded Series 2009B Bonds" or "Advance Refunded Bonds")], [(e) make a deposit to the Reserve Fund (as defined herein),] and (f) pay the costs of issuance of the Series 2016 Bonds.

The specific principal amount, if any, of each maturity of the Refunded Series 2006A Bonds, the Refunded Series 2006B Bonds, the Refunded Series 2006C Bonds and/or the Refunded Series 2009B Bonds that will be refunded (collectively, the "Refunded Bonds") will be determined by the Department at the time the Department and the Underwriters sign the Bond Purchase Agreement (herein defined). The issuance of the Series 2016 Bonds and the refunding of the Refunded Bonds are subject to market conditions, and the Series 2016 Bonds will only be issued to refund the Refunded Bonds if such issuance and refunding result in acceptable debt service savings to the Department.

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The Refunded Bonds are described in more detail in the following tables.

**Refunded Series 2006A Bonds\***

| <b>Maturity Date<br/>(August 1)</b> | <b>Principal<br/>Amount</b> | <b>Redemption<br/>Date<sup>1</sup></b> | <b>CUSIP<br/>Number<sup>2</sup></b> |
|-------------------------------------|-----------------------------|--|-------------------------------------|
| 2017                                | \$ 8,930,000                | 10/13/2016                             | 544552LF7                           |
| 2018                                | 9,990,000                   | 10/13/2016                             | 544552LG5                           |
| 2020                                | 10,190,000                  | 10/13/2016                             | 544552LJ9                           |
| 2022                                | 2,740,000                   | 10/13/2016                             | 544552LL4                           |
| 2024                                | 16,715,000                  | 10/13/2016                             | 544552LN0                           |

\* Preliminary; subject to change.

<sup>1</sup> The Refunded Series 2006A Bonds will be redeemed on October 13, 2016 at a redemption price of 102% of the principal thereof, plus accrued interest.

<sup>2</sup> CUSIP numbers are provided only for the convenience of the reader. Neither the Department nor the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

**Refunded Series 2006B Bonds\***

| <b>Maturity Date<br/>(August 1)</b> | <b>Principal<br/>Amount</b> | <b>Redemption<br/>Date<sup>1</sup></b> | <b>CUSIP<br/>Number<sup>2</sup></b> |
|-------------------------------------|-----------------------------|--|-------------------------------------|
| 2017                                | \$ 3,095,000                | 10/13/2016                             | 544552MA7                           |
| 2018                                | 12,855,000                  | 10/13/2016                             | 544552MB5                           |
| 2019                                | 13,485,000                  | 10/13/2016                             | 544552MC3                           |
| 2020                                | 14,995,000                  | 10/13/2016                             | 544552MD1                           |
| 2021                                | 15,760,000                  | 10/13/2016                             | 544552ME9                           |
| 2024                                | 5,000                       | 10/13/2016                             | 544552MH2                           |
| 2025                                | 225,000                     | 10/13/2016                             | 544552MJ8                           |

\* Preliminary; subject to change.

<sup>1</sup> The Refunded Series 2006B Bonds will be redeemed on October 13, 2016 at a redemption price of 102% of the principal thereof, plus accrued interest.

<sup>2</sup> CUSIP numbers are provided only for the convenience of the reader. Neither the Department nor the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

**Refunded Series 2006C Bonds\***

| <b>Maturity Date<br/>(August 1)</b> | <b>Principal<br/>Amount</b> | <b>Redemption<br/>Date<sup>1</sup></b> | <b>CUSIP<br/>Number<sup>2</sup></b> |
|-------------------------------------|-----------------------------|--|-------------------------------------|
| 2017                                | \$ 930,000                  | 10/13/2016                             | 544552MV1                           |
| 2018                                | 980,000                     | 10/13/2016                             | 544552MW9                           |
| 2019                                | 1,035,000                   | 10/13/2016                             | 544552MX7                           |
| 2020                                | 1,080,000                   | 10/13/2016                             | 544552MY5                           |
| 2021                                | 1,130,000                   | 10/13/2016                             | 544552MZ2                           |
| 2022                                | 1,190,000                   | 10/13/2016                             | 544552NA6                           |
| 2025                                | 3,915,000                   | 10/13/2016                             | 544552NB4                           |

\* Preliminary; subject to change.

<sup>1</sup> The Refunded Series 2006C Bonds will be redeemed on October 13, 2016 at a redemption price of 102% of the principal thereof, plus accrued interest.

<sup>2</sup> CUSIP numbers are provided only for the convenience of the reader. Neither the Department nor the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

**Refunded Series 2009B Bonds\***

| <b>Maturity Date<br/>(August 1)</b> | <b>Principal<br/>Amount</b> | <b>Redemption<br/>Date<sup>1</sup></b> | <b>CUSIP<br/>Number<sup>2</sup></b> |
|-------------------------------------|-----------------------------|--|-------------------------------------|
| 2034                                | \$43,640,000                | 8/1/2019                               | 544552TV4                           |
| 2039                                | 56,360,000                  | 8/1/2019                               | 544552TW2                           |

\* Preliminary; subject to change.

<sup>1</sup> The Refunded Series 2009B Bonds will be redeemed on August 1, 2019 at a redemption price of 100% of the principal thereof, plus accrued interest.

<sup>2</sup> CUSIP numbers are provided only for the convenience of the reader. Neither the Department nor the Underwriters undertake any responsibility for the accuracy of such CUSIP numbers or for any changes or errors in the list of CUSIP numbers.

If issued, a portion of the proceeds of the Series 2016A Bonds and the Series 2016B Bonds, together with certain available moneys of the Department, will be deposited in separate redemption accounts established and maintained for the Current Refunded Bonds by the Trustee. Such amounts will be held uninvested by the Trustee and on the redemption date for the Current Refunded Bonds (October 13, 2016) will be used to pay the redemption price of and interest on the Current Refunded Bonds.

If issued, a portion of the proceeds of the Series 2016B Bonds and the Series 2016C Bonds, together with certain available moneys of the Department, will be deposited in an escrow fund or account established and maintained for the Advance Refunded Bonds. Such amounts will be held by an escrow agent pursuant to an escrow agreement and on the redemption date for the Advance Refunded Bonds (August 1, 2019) will be used to pay the redemption price of and interest on the Advance Refunded Bonds.]

Upon delivery of the Series 2016 Bonds, Grant Thornton LLP, a firm of independent certified public accountants (the "Verification Agent"), will deliver a report stating that it has verified the mathematical accuracy of the computations contained in the provided schedules to determine that the amounts to be held in the respective redemption accounts will be sufficient to pay the redemption price of

and interest on the Refunded Bonds on the respective redemption date for the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

**Application of Series 2016 Bond Proceeds**

Proceeds from the sale of the Series 2016 Bonds, along with certain other available moneys, will be used to refund and defease the Refunded Bonds to generate debt service savings, [make a deposit to the Reserve Fund], and pay costs of issuance of the Series 2016 Bonds. The following table sets forth the sources and uses of funds in connection with the issuance of the Series 2016 Bonds.

| <u>Sources</u>  | <u>Series 2016A<br/>Bonds</u> | <u>Series 2016B<br/>Bonds</u> | <u>Series 2016C<br/>Bonds</u> | <u>Total</u> |
|---|-------------------------------|-------------------------------|-------------------------------|--------------|
| Par Amount  | \$                            | \$                            | \$                            | \$           |
| Original Issue Premium/(Discount)<br>[Funds Released from Common Reserve]                 |                               |                               |                               |              |
| Available Moneys of the Department  |                               |                               |                               |              |
| Total Sources   | \$                            | \$                            | \$                            | \$           |
| <b><u>Uses</u></b>  |                               |                               |                               |              |
| Deposit to Redemption Accounts for the<br>Current Refunded Bonds                          | \$                            | \$                            | \$                            | \$           |
| Deposit to the Escrow Fund for the Advance<br>Refunded Bonds<br>[Deposit to Reserve Fund] |                               |                               |                               |              |
| Costs of Issuance <sup>1</sup>  |                               |                               |                               |              |
| Underwriters’ Discount  |                               |                               |                               |              |
| Total Uses  | \$                            | \$                            | \$                            | \$           |

<sup>1</sup> Includes Trustee fees, escrow agent fees, financial advisor fees and expenses, rating agency fees, bond and disclosure counsel fees and expenses, Verification Agent fees, printing costs and other costs of issuing the Series 2016 Bonds.

**GREEN BONDS DESIGNATION**

The Department enlisted Sustainalytics, a second opinion provider that conducted environmental, social and governance research to assess the alignment of the Series 2016C Bonds with the *Green Bond Principles 2016*. The Series 2016C Bonds are labeled Green Bonds because the proceeds of the Series 2016C Bonds will be used to refund [a portion of] the Refunded Series 2009B Bonds which were issued to finance environmentally beneficial projects (“Green Projects”) which projects align with the *Green Bond Principles 2016*. The purpose of designating the offered bonds as “Green Bonds” is to allow investors to invest directly in bonds which finance or refinance Green Projects. Construction of such Green Projects have been completed and no additional reporting on the status of the Green Projects is anticipated. [Indicate Department will provide third party report to EMMA?]

The use of the term “Green Bonds” is solely for identification purposes and is not intended to provide or imply that the owners of the Series 2016C Bonds is entitled to any security other than that described under the heading, “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS”.

## DESCRIPTION OF THE SERIES 2016 BONDS

### General

The Series 2016 Bonds will bear interest at the rates and mature on the dates set forth on the inside cover page of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2016 Bonds will be dated their date of delivery, and will bear interest from that date, payable semi-annually on February 1 and August 1 of each year (each an “Interest Payment Date”), commencing on February 1, 2017. Interest due and payable on the Series 2016 Bonds on any Interest Payment Date will be paid to the registered owner as of the Record Date (Cede & Co., so long as the book-entry system with The Depository Trust Company (“DTC”) is in effect). Each Series 2016 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) it is authenticated on or before January 15, 2017, in which event it will bear interest from its date of delivery; provided, however, that if, as of the date of authentication of any Series 2016 Bond, interest thereon is in default, such Series 2016 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Series 2016 Bonds will be issued in denominations of \$5,000 or integral multiples thereof. The Series 2016 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2016 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2016 Bonds purchased. So long as Cede & Co., as a nominee of DTC, is the registered owner of the Series 2016 Bonds, references herein to the Owners or registered owners means Cede & Co., and does not mean the beneficial owners of the Series 2016 Bonds.

So long as Cede & Co. is the registered owner of the Series 2016 Bonds, principal of and interest on the Series 2016 Bonds will be payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the DTC participants, for subsequent disbursement to the beneficial owners. See “APPENDIX F—BOOK-ENTRY-ONLY SYSTEM.”

### Redemption Provisions

***Optional Redemption.*** The Series 2016A Bonds are not subject to optional redemption prior to maturity.

[The Series 2016B Bonds maturing on or before August 1, 20\_\_ are not subject to optional redemption prior to maturity. The Series 2016B Bonds maturing on August 1, 20\_\_, are subject to redemption at the option of the Department prior to their stated maturity, as a whole, or in part in integral multiples of \$5,000, on any date on or after August 1, 20\_\_, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, without premium.]

[The Series 2016C Bonds maturing on or before August 1, 20\_\_ are not subject to optional redemption prior to maturity. The Series 2016C Bonds maturing on August 1, 20\_\_, are subject to redemption at the option of the Department prior to their stated maturity, as a whole, or in part in integral multiples of \$5,000, on any date on or after August 1, 20\_\_, at a redemption price equal to the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, without premium.]

***Mandatory Sinking Fund Redemption.*** The Series 2016C Bonds maturing on August 1, 20\_\_ are subject to mandatory redemption or purchase in lieu thereof from sinking fund payments made by the Department, in part (by lot) on August 1, 20\_\_ and on August 1 in each year thereafter at a redemption price equal to the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium; provided, however, that if some but not all of the Series 2016C Bonds have been optionally redeemed, the total amount of sinking fund payments to be made subsequent to such optional or mandatory redemption shall be reduced in an amount equal to the principal amount of such Series 2016C Bonds so redeemed by reducing future sinking fund payments in such order as shall be designated pursuant to written notice filed by the Department with the Trustee.

| Redemption Date<br>(August 1) | Principal<br>Amount |
|-------------------------------|---------------------|
|-------------------------------|---------------------|

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† Final Maturity

***Selection of Bonds for Redemption.*** In the case of any redemption of part of the Series 2016 Bonds, the Series 2016 Bonds to be redeemed are subject to redemption in such order of maturity as the Department may direct and by lot, selected in such manner as the Trustee deems appropriate, within a maturity; provided, however, that for so long as the Series 2016 Bonds are Book-Entry Bonds, the interests of the Participants in the particular Series 2016 Bonds or portions thereof to be redeemed will be selected by lot by the Security Depository in such manner as the Security Depository and the Participants may determine.

***Notice of Redemption.*** Notice of redemption will be mailed by first-class mail not less than [20] days before any redemption date, to the respective Owners of any Series 2016 Bonds designated for redemption at their addresses appearing on the Registration Books and to the Securities Depositories (DTC) and to the Information Services (MSRB's EMMA system). Each notice of redemption will state the redemption date, the place or places of redemption, the maturity date and the interest rate of the Series 2016 Bonds to be redeemed, whether less than all of the Series 2016 Bonds are to be redeemed, the distinctive numbers of the Series 2016 Bonds to be redeemed, and in the case of Series 2016 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the redemption date there will become due and payable on each of said Series 2016 Bonds or parts thereof designated for redemption the principal amount of, plus accrued interest thereon, without premium, and that from and after such redemption date interest thereon will cease to accrue, and will require that such Series 2016 Bonds be surrendered. Neither the failure to receive any notice nor any defect therein will affect the validity of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of Series 2016 Bonds will be given by the Trustee, at the expense of the Department, for and on behalf of the Department.

With respect to any notice of redemption of Series 2016 Bonds under the Indenture, unless upon the giving of such notice such Series 2016 Bonds will be deemed to have been paid within the meaning of

the Indenture or the Trustee has received amounts sufficient to pay the principal of and interest on such Series 2016 Bonds to be redeemed, such notice will state that such redemption is conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such Series 2016 Bonds to be redeemed, and that if such amounts have not been received said notice will be of no force and effect and such Series 2016 Bonds will not be subject to redemption on such date. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption will not be made and the Trustee will within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such amounts were not so received and the redemption was not made.

***Effect of Redemption.*** Notice of redemption having been duly given as described above, and moneys for payment of the principal of, plus accrued interest, without premium, on the Series 2016 Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Series 2016 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the Series 2016 Bonds so called for redemption will cease to accrue, said Series 2016 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said Series 2016 Bonds will have no rights in respect thereof except to receive payment of the principal of, plus accrued interest thereon, without premium. The Trustee will, upon surrender for payment of any of the Series 2016 Bonds to be redeemed on their redemption dates, pay the principal of, plus accrued interest on such Series 2016 Bonds, without premium.

***Partial Redemption.*** Upon surrender of any Series 2016 Bond redeemed in part only, the Department will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Department, a new Series 2016 Bond or Series 2016 Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Series 2016 Bonds surrendered and of the same interest rate, maturity and Series.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS**

### **Source of Payment**

Subject to the provisions of the Indenture, all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are irrevocably pledged to secure the payment of the principal of and interest on the Series 2016 Bonds in accordance with their terms and the provisions of the Indenture. The pledge of Revenues is on a parity with the lien on and security interest in Revenues granted to the other Parity Obligations pursuant to the Issuing Documents (as defined herein) for such Parity Obligations. The pledge of amounts held in the Reserve Fund (which the Department has elected pursuant to the Indenture to treat as part of the Common Reserve securing all Common Reserve Parity Obligations) is on a parity with the lien on and security interest in such amounts of the Common Reserve Parity Obligations pursuant to the Issuing Documents for such Common Reserve Parity Obligations. The pledge will constitute a lien on and security interest in such amounts on a parity with the lien on and security interest in such amounts of the Parity Obligations pursuant to the Issuing Documents for such Parity Obligations and will attach, be perfected and be valid and binding from and after the date of issuance of the Series 2016 Bonds, without any physical delivery thereof or further act and will be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Department, irrespective of whether such parties have notice hereof.

“*Revenues*” means: (a) all money received or collected from or arising out of the use or operation of any harbor or port improvement, work, structure, appliance, facility or utility, service, or watercraft, owned, controlled or operated by the City in or upon or pertaining to the lands and waters, or interests

therein, of said City in the Harbor District (as defined below); all tolls, charges and rentals collected by the Department; and all compensations or fees required to be paid for franchises or licenses, or otherwise by law or ordinance or order, to the City for the operation of any public service utility upon lands and waters, or interests therein, of the City in the Harbor District; provided that for the avoidance of doubt user fees collected by the Department on behalf of, or required to be transmitted to, third parties pursuant to applicable law and not commingled with Revenues, will not be deemed to be Revenues; and (b) all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture (except interest and gain derived from the Rebate Fund established and maintained under the Indenture).

“*Parity Obligations*” means the Series 2016 Bonds and all other revenue bonds or notes of the Department authorized, executed, issued and delivered by the Department, and all contracts of the Department authorized and executed by the Department, the payments of which are on a parity with the Series 2016 Bonds and which are secured by a pledge of and lien on the Revenues. See “—Outstanding Parity Obligations” below.

THE SERIES 2016 BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, THE STATE OR ANY SUBDIVISION THEREOF OTHER THAN THE DEPARTMENT, AND IN ANY EVENT THE SERIES 2016 BONDS WILL NOT BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OF THE CITY OR THE DEPARTMENT OTHER THAN THE REVENUES DEPOSITED INTO THE HARBOR REVENUE FUND AS PROVIDED IN THE INDENTURE AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE SERIES 2016 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE DEPARTMENT IN CONTRAVENTION OF ANY CHARTER, STATUTORY OR CONSTITUTIONAL DEBT OR OTHER LIMITATION OR RESTRICTION AND DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DEPARTMENT OR THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DEPARTMENT OR THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

As of September 1, 2016, the Department had \$909,425,000 aggregate principal amount of Parity Obligations (including the Refunded Bonds) outstanding. See “—Outstanding Parity Obligations” below for additional information on the Parity Obligations. The principal of and interest on the Parity Obligations are secured by a pledge and lien on Revenues on a parity with the Series 2016 Bonds. Subject to the satisfaction of certain conditions set forth in the Indenture, the Department may issue additional bonds, notes or other evidence of indebtedness secured by a pledge and lien on Revenues on a parity with the Series 2016 Bonds. Pursuant to the Indenture, obligations of the Department secured by a pledge and lien on Revenues senior to the payment of principal of or interest on the Parity Obligations (including the Series 2016 Bonds) are prohibited. The Department has no such senior obligations outstanding. The Indenture does not prohibit the Department from issuing obligations secured by a pledge and lien on Revenues subordinate to the payment of principal of or interest on the Parity Obligations (including the Series 2016 Bonds).

### **Harbor Revenue Fund**

The Harbor Revenue Fund is a fund held by the Department and established by the Charter (the “Harbor Revenue Fund”). Pursuant to the Charter, all fees, charges, rentals and revenue from every source collected by the Department in connection with its possession, management and control of the Harbor District and Harbor Assets (as defined below) are deposited in the city treasury to the credit of the

Harbor Revenue Fund. All such moneys and revenues deposited in the Harbor Revenue Fund are under the direction and control of the Board.

Pursuant to the Charter, moneys deposited in the Harbor Revenue Fund may be appropriated or used only for the following purposes:

(a) for the necessary expenses of operating the Department, including the operation, promotion and maintenance of the lands and waters, and interests therein, under the possession, management and control of the Board (the “Harbor District”) and all harbor and port improvements, works, utilities, facilities and watercraft, owned, controlled or operated by the Department (collectively with the Harbor District, the “Harbor Assets”) in connection with or for the promotion and accommodation of maritime commerce, navigation and fishery (“Departmental Purposes”);

(b) for the acquisition, construction, completion and maintenance of Harbor Assets for Departmental Purposes, and for the acquisition or taking by purchase, lease, condemnation or otherwise of property, real or personal, or other interest necessary or convenient for Departmental Purposes;

(c) for the payment of the principal and interest of bonds issued by the Department or by the City for Departmental Purposes;

(d) for defraying the expenses of any pension or retirement system applicable to the employees of the Department; and

(e) for reimbursements to another department or office of the City on account of services rendered, or materials, supplies or equipment furnished to support Departmental Purposes.

### **Flow of Funds**

The Indenture establishes the following funds: (a) the Interest Fund (the “Interest Fund”); (b) the Principal Fund (the “Principal Fund”); (c) the Reserve Fund (the “Reserve Fund”); (d) the Redemption Fund (the “Redemption Fund”); (e) the Costs of Issuance Fund (the “Costs of Issuance Fund”); and (f) the Rebate Fund (the “Rebate Fund”). All such funds and accounts are to be held and administered by the Trustee.

The Department will, from the moneys in the Harbor Revenue Fund, from time to time, pay all Operation and Maintenance costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance costs, the payment of which is not then immediately required) as they become due and payable. In addition thereto, the Department will transfer from the Harbor Revenue Fund to the Trustee for deposit into the following respective funds, the following amounts in the following order of priority and at the following times, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit:

(a) Not later than the third Business Day preceding each date on which the interest on the Series 2016 Bonds becomes due and payable, that sum, if any, required to cause the aggregate amount on deposit in the Interest Fund to be at least equal to the amount of interest becoming due and payable on such date on all Series 2016 Bonds then Outstanding. The Department also will deposit in any applicable interest account created with respect to the other

Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other interest in accordance with the provisions of the Issuing Document relating thereto.

(b) Not later than the third Business Day preceding each date on which the principal of the Series 2016 Bonds becomes due and payable, that sum, if any, required to cause the aggregate amount on deposit in the Principal Fund to equal the principal amount of the Series 2016 Bonds coming due and payable on such date. The Department also will deposit in any applicable principal account created with respect to the other Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other principal in accordance with the provisions of the Issuing Document relating thereto.

(c) The Department will, from the remaining moneys in the Harbor Revenue Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit in: (i) the reserve funds for Parity Obligations which the Department has elected to make a part of the Common Reserve (including the Reserve Fund), an amount necessary to cause the balance on deposit therein, including the amounts available under the Common Reserve Security Devices, to be equal to the Common Reserve Requirement or to reimburse the providers of the Common Reserve Security Devices for any draws thereon in accordance with the written direction of the providers of the Common Reserve Security Devices, including interest due on amounts drawn thereunder; provided that to the extent the Department has transferred or is currently transferring amounts necessary to reimburse the providers of the Common Reserve Security Devices as described above, the amount available under the Common Reserve Security Devices will be deemed to be reinstated by the amount of the draws so reimbursed when determining the balance in the Common Reserve for purposes of this provision; and (ii) each Separate Reserve Fund for any Parity Obligations, an amount necessary to cause the balance on deposit therein, including the amounts available under any security devices credited to such Separate Reserve Fund, to be equal to the Separate Reserve Fund Requirement for such Parity Obligations or to reimburse the providers of such security devices for any draws thereon in accordance with the written direction of the providers thereof, including interest due on amounts drawn thereunder in accordance with the provisions of the Issuing Document for such Parity Obligations; provided that to the extent the Department has transferred or is currently transferring amounts necessary to reimburse the providers of such security devices as described above, the amount available under such security devices will be deemed to be reinstated by the amount of the draws so reimbursed when determining the balance in such Separate Reserve Fund for purposes of this provision.

No transfer of moneys for deposit to the reserve funds for Parity Obligations which the Department has elected to make a part of the Common Reserve (including the Reserve Fund) need be made if the balance in the Common Reserve, including the amount available under any Common Reserve Security Device, is at least equal to the Common Reserve Requirement. No transfer of moneys for deposit to any Separate Reserve Fund for any Parity Obligations need be made if the balance in such Separate Reserve Fund, including the amount available under any security devices credited to such Separate Reserve Fund, is at least equal to the Separate Reserve Fund Requirement for such Parity Obligations. See “—Reserve Fund” below.

(d) Thereafter, the Department may apply Revenues for any lawful purpose.

## **Rate Covenant**

The Department has covenanted under the Indenture that it will fix rates, tolls and charges, rentals for leases, permits and franchises, and compensations or fees for franchises and licenses, subject to the approval of or submission to the City Council only in those instances and in such manner as may be provided in the Charter, and collect such charges, rentals, compensations and fees, such as to provide revenues, after payment of all Operation and Maintenance costs for each Fiscal Year, which will at least equal 125% of Debt Service, any amounts required to be paid to the provider of any Common Reserve Security Device pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture for such Fiscal Year and during such period the City Council will, when its approval is required by the Charter, approve rates, tolls, charges, rentals, compensations and fees so fixed by the Department, sufficient for the purposes aforesaid; no ordinance adopted by the City Council approving any rate, toll, charge, rental compensation or fee so fixed by the Department will be subject to referendum.

“*Debt Service*” means, for any period of calculation, the sum of principal of and interest on the Series 2016 Bonds, the other Parity Obligations and the other bonds, notes, certificates and other evidences of indebtedness of the Department and bonds, notes, certificates and other evidences of indebtedness of the Department payable or serviced out of the Harbor Revenue Fund (as calculated based on the reasonable assumptions of the Department) on a parity with the Series 2016 Bonds during such period. See “—Outstanding Parity Obligations,” “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Debt Service on the Parity Obligations” and “APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

## **Reserve Fund**

In each indenture of trust, trust agreement or other document pursuant to which Parity Obligations are issued or delivered (each, an “Issuing Document”), the Department may establish a reserve fund for such Parity Obligations. Subject to the terms of each Issuing Document, the Department may elect to treat such reserve fund as a part of the “Common Reserve.” The Common Reserve secures all of the Parity Obligations for which the Department has elected to participate in the Common Reserve (each, a “Common Reserve Parity Obligation”). Pursuant to the Indenture, at the time of issuance of the Series 2016 Bonds the Trustee will establish a reserve fund for the Series 2016 Bonds (the “Reserve Fund”), and the Department will elect to treat the Reserve Fund as part of the Common Reserve. In addition to the Reserve Fund, the Department has elected to treat the reserve funds established for its Refunding Revenue Bonds, 2006 Series A (the “Series 2006A Bonds”), Refunding Revenue Bonds, 2006 Series B (the “Series 2006B Bonds”), Refunding Revenue Bonds, 2006 Series C (the “Series 2006C Bonds,” and collectively with the Series 2006A Bonds and the Series 2006B Bonds, the “Series 2006 Bonds”), Revenue Bonds, 2009 Series A (the “Series 2009A Bonds”), Revenue Bonds, 2009 Series B (the “Series 2009B Bonds”), Refunding Revenue Bonds, 2009 Series C (the “Series 2009C Bonds,” and collectively with the Series 2009A Bonds and the Series 2009B Bonds, the “Series 2009 Bonds”), Refunding Revenue Bonds, 2011 Series A (the “Series 2011A Bonds”), Refunding Revenue Bonds, 2011 Series B (the “Series 2011B Bonds,” and together with the Series 2011A Bonds, the “Series 2011 Bonds”), Revenue Bonds and Refunding Revenue Bonds, 2014 Series A (the “Series 2014A Bonds”), Refunding Revenue Bonds, 2014 Series B (the “Series 2014B Bonds”), Revenue Bonds, 2014 Series C (the “Series 2014C Bonds,” and collectively with the Series 2014A Bonds and the Series 2014B Bonds, the “Series 2014 Bonds”), and Refunding Revenue Bonds, 2015 Series A (the “Series 2015 Bonds”) as part of the Common Reserve. The Series 2016 Bonds will be secured by the Common Reserve on parity with the other Common Reserve Parity Obligations (the Series 2006 Bonds, the Series 2009 Bonds, the

Series 2011 Bonds, the Series 2014 Bonds, the Series 2015 Bonds and any additional Parity Obligations issued in the future for which the Department elects to participate in the Common Reserve).

Amounts on deposit in the Common Reserve will be drawn upon by the Trustee if the amounts in the respective principal accounts and/or interest accounts for the Common Reserve Parity Obligations (including the Series 2016 Bonds) are insufficient to pay in full any principal or interest then due on such Common Reserve Parity Obligations. In the event any amounts are required to be withdrawn from the Common Reserve, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Common Reserve Parity Obligations (including the Series 2016 Bonds).

The Common Reserve is required to be funded in an amount equal to the Common Reserve Requirement. The "Common Reserve Requirement" means, as of any date of calculation, an amount equal to the least of (a) 125% of average annual principal of and interest on all outstanding Common Reserve Parity Obligations, determined on a Fiscal Year basis; (b) the maximum aggregate annual principal of and interest on all outstanding Common Reserve Parity Obligations, determined on a Fiscal Year basis; and (c) 10% of the proceeds of all Common Reserve Parity Obligations; provided, however, that, if, upon issuance of a Common Reserve Parity Obligation, such amount would require moneys to be credited to the Common Reserve from the proceeds of such Common Reserve Parity Obligations in an amount in excess of the maximum amount permitted under the Internal Revenue Code of 1986, as amended (the "Code"), to be funded from the proceeds of tax exempt bonds, the Common Reserve Requirement will mean an amount equal to the sum of the Common Reserve Requirement immediately preceding issuance of such Common Reserve Parity Obligation and the maximum amount permitted under the Code to be funded from the proceeds of tax exempt bonds to be deposited therein from the proceeds of such Common Reserve Parity Obligation, as certified in a Certificate of the Department. At the time of issuance of the Series 2016 Bonds, sufficient amounts will be on deposit in the Common Reserve to meet the Common Reserve Requirement (\$65,864,276).

Each time that the Department elects to treat a reserve fund as a part of the Common Reserve, if necessary to meet the Common Reserve Requirement at the time of election, the Department is required to deposit cash and/or securities to the Common Reserve, and/or provide one or more (a) surety bonds; (b) insurance policies issued by one or more municipal bond insurance companies; (c) letters of credit; or (d) other security devices, and credit to such reserve fund to satisfy a portion of the Common Reserve Requirement in the Common Reserve, in each case with ratings in the highest rating category by two of the Rating Agencies as of the date of deposit therein, and with provision that such security device(s) will be available to be drawn upon with respect to all Common Reserve Parity Obligations (each, a "Common Reserve Security Device"), in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement calculated to take into account such additional Common Reserve Parity Obligations. Additionally, in substitution for all or part of the moneys and/or securities on deposit in the Common Reserve, the Department may provide one or more Common Reserve Security Devices, which will each be available to be drawn on a pro rata basis among all the Common Reserve Security Devices. Upon the expiration of any Common Reserve Security Device prior to the payment in full of all of the Common Reserve Parity Obligations, if the balance in the Common Reserve is less than the Common Reserve Requirement, the Department will either provide a substitute Common Reserve Security Device or deposit cash in the Common Reserve, in an amount sufficient to increase the balance in the Common Reserve to the Common Reserve Requirement. The Department is not required to replace any Common Reserve Security Device that is no longer rated in the highest rating category by two of the Rating Agencies.

As of the date of issuance of the Series 2016 Bonds, the Common Reserve is expected to contain \$65,864,276 of cash and securities, which will satisfy the Common Reserve Requirement.

[In addition to the cash and securities, the Common Reserve contains two Common Reserve Security Devices, which were issued by Financial Guaranty Insurance Company (in the principal amount of \$18,942,500) and National Public Finance Guaranty Corporation (in the principal amount of \$23,646,000) (“NPF”), as successor to MBIA Insurance Corporation.] The amount of cash and securities in the Common Reserve will satisfy the Common Reserve Requirement without taking into consideration these Common Reserve Security Devices.

If the amount available and contained in the Common Reserve exceeds the Common Reserve Requirement, the Trustee will annually on August 1 withdraw the excess amount from the Common Reserve on a pro rata basis among all reserve funds which participate in the Common Reserve and will, without preference or priority, deposit ratably, in accordance with the amount of interest becoming due and payable on each series of Common Reserve Parity Obligations, to the applicable interest accounts for the Common Reserve Parity Obligations, and for this purpose the Trustee will determine the Value of the Common Reserve on or before August 1 in each year. Except for such withdrawals and any reimbursement of the providers of the Common Reserve Security Devices for any draws thereon, all moneys in the Common Reserve will be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Common Reserve Parity Obligations in the event that no other moneys of the Department are applied thereto.

If the Department establishes a reserve fund for any Parity Obligations that the Department elects not to make part of the Common Reserve, such reserve fund will be a Separate Reserve Fund and will secure only the Parity Obligations for which such reserve fund was established. As of the date of this Official Statement, none of the Parity Obligations (including the Series 2016 Bonds) are secured by a Separate Reserve Fund.

Under the Issuing Document for the Department’s Commercial Paper Notes, Series A (Exempt Facility AMT), Series C1 (Governmental Non-AMT), and Series D (Taxable) (collectively, the “Commercial Paper Notes”) the Department did not establish a reserve fund for the Commercial Paper Notes. The Commercial Paper Notes are not secured by the Common Reserve.

### **Additional Debt**

**No Priority.** The Indenture provides that no bonds or other obligations of the Department payable out of the Harbor Revenue Fund will be issued having any priority with respect to payment of principal or interest out of the Harbor Revenue Fund over Parity Obligations (including the Series 2016 Bonds); no transfer of money will be made out of the Harbor Revenue Fund in any one Fiscal Year for the purpose of paying the principal of or interest on any bonds or other obligations of the City serviced out of the Harbor Revenue Fund unless and until the principal of and interest on the Parity Obligations (including the Series 2016 Bonds), due and payable in that Fiscal Year, have been paid or set aside in a separate fund held in trust and charged with such payments.

**Additional Indebtedness.** Pursuant to the Indenture, no additional Parity Obligations will be created or incurred unless (the following is referred to as the “Additional Indebtedness Test”):

- (a) the Net Revenues (Revenues less Operation and Maintenance costs) for any consecutive 12-calendar-month period during the 18-calendar-month period preceding the date of adoption by the Board of the resolution authorizing the issuance or execution of such Parity Obligations, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the Department, produces a sum equal to at least 125% of the Debt Service, any amounts required to be paid to the provider of any Common Reserve Security Device pursuant to such Common Reserve Security Device, any

amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture due and payable during such 12-calendar-month period; and

(b) the Net Revenues for any consecutive 12-calendar-month period during the 18-calendar-month period preceding the date of the execution of such Parity Obligations or the date of adoption by the Board of the resolution authorizing the issuance of such Parity Obligations, including adjustments to give effect as of the first day of such 12-month period to increases or decreases in tolls, charges, rentals, compensations or fees approved and in effect as of the date of calculation, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the Department, will have produced a sum equal to at least 125% of Average Annual Debt Service, including such Parity Obligations being created or incurred (but excluding Parity Obligations to be redeemed or defeased simultaneously with the issuance and with the proceeds of the Parity Obligations being created or incurred) any amounts required to be paid to the provider of any Common Reserve Security Device pursuant to such Common Reserve Security Device, any amounts required to be paid to the provider of any Separate Reserve Fund Security Device pursuant to such Separate Reserve Fund Security Device and other amounts to be paid by the Department under the Indenture due and payable during such 12-calendar-month period; and provided that, as to any such Parity Obligations bearing or comprising interest at other than a fixed rate, the rate of interest on such Parity Obligations will be equal to the rate per annum of the Bond Buyer Revenue Bond Index most recently published in The Bond Buyer preceding the date of calculation, or if such index is no longer in existence, a comparable index selected by the Department; and provided further that if any series or issue of such Parity Obligations have 25% or more of the aggregate principal amount of such series or issue due in any one year, principal of and interest on such series or issue will be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Parity Obligations were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of 25 years from the date of calculation (with respect to the Department's Commercial Paper Notes, see "—Outstanding Parity Obligations" below); and provided further that, as to any such Parity Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligations or portions thereof, such accreted discount will be treated as interest, in the calculation of Debt Service; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of principal of and interest on such Parity Obligations will be deducted from the amount of principal due at the final maturity of the Parity Obligations for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and provided further that if the Parity Obligations constitute Paired Obligations, the interest rate on such bonds or contracts will be the resulting linked rate or the effective fixed interest rate to be paid by the Department with respect to such Paired Obligations.

The issuance of bonds, notes or other evidences of indebtedness, or certificates of participation, for the purpose of refunding at or prior to maturity the principal of bonds, notes or other evidences of indebtedness and paying any premium upon redemption of any thereof so refunded will not be limited or restricted by the provisions of the preceding paragraphs, if the Debt Service for such bonds, notes or other evidences of indebtedness, in each year, will be lower than the Debt Service on the bonds, notes or other evidences of indebtedness being refunded. The Series 2016 Bonds are being issued pursuant to the provisions of the preceding sentence.

## Outstanding Parity Obligations

**General.** As of September 1, 2016, the Department had \$909,425,000 of Parity Obligations (including the Refunded Bonds) outstanding, which consisted of the Department’s revenue bonds. The Parity Obligations are secured by Revenues on parity with the Series 2016 Bonds.

The following table sets forth the Parity Obligations that have been issued and were outstanding as of September 1, 2016.

| <b>Outstanding Parity Obligations<br/>(as of September 1, 2016)</b> |  |   |   |
|---|--|---|---|
| <b>Bonds</b>  | <b>Original<br/>Principal<br/>Amount</b> | <b>Principal<br/>Amount<br/>Outstanding<sup>1</sup></b> | <b>Issuing Document</b>   |
| Series 2006A <sup>2</sup>   | \$200,710,000                            | \$48,565,000  | Indenture of Trust, dated as of October 1, 2005, by and between the Department and The Bank of New York, N.A., as original trustee (“Series 2005/2006 Indenture”) |
| Series 2006B <sup>2</sup>   | 209,815,000                              | 60,420,000  | Series 2005/2006 Indenture  |
| Series 2006C <sup>2</sup>   | 16,545,000                               | 10,260,000  | Series 2005/2006 Indenture  |
| Series 2009A  | 100,000,000                              | 74,570,000  | Indenture of Trust, dated as of July 1, 2009, by and between the Department and U.S. Bank National Association, as trustee (the “Series 2009 Indenture”)          |
| Series 2009B <sup>2</sup>   | 100,000,000                              | 100,000,000   | Series 2009 Indenture   |
| Series 2009C  | 230,160,000                              | 171,575,000   | Series 2009 Indenture   |
| Series 2011A  | 58,930,000                               | 49,665,000  | Indenture of Trust, dated as of July 1, 2011, by and between the Department and U.S. Bank National Association, as trustee (the “Series 2011 Indenture”)          |
| Series 2011B  | 32,820,000                               | 32,820,000  | Series 2011 Indenture   |
| Series 2014A  | 203,280,000                              | 197,585,000   | Indenture of Trust, dated as of September 1, 2014, by and between the Department and U.S. Bank National Association, as trustee (the “Series 2014 Indenture”)     |
| Series 2014B  | 89,105,000                               | 86,320,000  | Series 2014 Indenture   |
| Series 2014C  | 44,890,000                               | 43,350,000  | Series 2014 Indenture   |
| Series 2015A  | \$ <u>37,050,000</u>                     | \$ <u>34,295,000</u>                                    | Indenture of Trust, dated as of October 1, 2015, by and between the Department and U.S. Bank National Association, as trustee                                     |
| <i>Total</i>  | <u>\$1,323,305,000</u>                   | <u>\$909,425,000</u>                                    |   |

<sup>1</sup> See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Debt Service on the Parity Obligations.”

<sup>2</sup> See “PLAN OF REFUNDING AND APPLICATION OF SERIES 2016 BOND PROCEEDS” for a discussion of the refunding and defeasance of the Refunded Bonds.

Source: Harbor Department of the City of Los Angeles

**Commercial Paper Program.** Pursuant to the Amended and Restated Issuing and Paying Agent Agreement, dated as of July 1, 2012, as amended (the “Issuing and Paying Agent Agreement”), by and between the Department and U.S. Bank National Association, as issuing and paying agent (the “Issuing and Paying Agent”), the Department is authorized to issue and to have outstanding, from time to time, up to \$200 million principal amount of its Commercial Paper Notes (such amount could be increased to \$[375] million with approval from the Board and amendments being made to the Issuing and Paying Agent Agreement). Notwithstanding the authorization provided in the Issuing and Payment Agent Agreement to issue and have outstanding up to \$200 million principal amount of Commercial Paper Notes, as of the date of this Official Statement, the Department has decided to limit its Commercial Paper

Note issuances to \$200 million (the total credit support provided by Mizuho Bank Ltd., as described below). As of the date of this Official Statement, the Department has no Commercial Paper Notes outstanding.

The Commercial Paper Notes are issuable in maturities of 1 to 270 days, the proceeds of which the Department utilizes to finance portions of its capital improvement program and to pay maturing Commercial Paper Notes. The Commercial Paper Notes are payable from and secured by a pledge of and a lien on Revenues on a parity with the other Parity Obligations (including the Series 2016 Bonds) and constitute Parity Obligations.

To provide liquidity support for the Commercial Paper Notes, the Department entered into the Line of Credit Agreement, dated as of July 1, 2012, as amended, (the “CP Line of Credit Agreement”) by and among the Department, the Issuing and Paying Agent and Mizuho Bank Ltd., acting through its New York Branch, as successor by merger to Mizuho Corporate Bank, Ltd., acting through its New York Branch (the “CP Bank”), as further described in the table below:

| <b>Commercial Paper Notes Line of Credit Agreement</b> |                      |                        |
|--|----------------------|------------------------|
| <u>Line of Credit Provider</u>                         | <u>Stated Amount</u> | <u>Expiration Date</u> |
| Mizuho   | \$200,000,000        | August 25, 2018        |

Pursuant to the CP Line of Credit Agreement, the CP Bank has agreed to make advances from time to time to the Issuing and Paying Agent for the purpose of paying the principal of and interest on maturing Commercial Paper Notes for which refinancing Commercial Paper Notes have not been issued. The CP Line of Credit Agreement is not available to pay the principal of or interest on any other Parity Obligations, including the Series 2016 Bonds. The CP Line of Credit Agreement may be terminated prior to its expiration date upon the occurrence of certain events, including, but not limited to, any event in which S&P, Moody’s and Fitch have assigned a rating to any of the Department’s unenhanced revenue bonds issued as Parity Obligations or other unenhanced debt issued as Parity Obligations below “BBB-,” “Baa3” or “BBB-,” respectively. Furthermore, upon the occurrence and continuation of an event of termination under the CP Line of Credit Agreement, the CP Bank does not have the right or remedy to accelerate or declare the principal and interest due under the CP Line of Credit Agreement to be immediately due and payable, except in the case of events of termination under the CP Line of Credit Agreement that are also events of default under the indentures relating to the Parity Obligations. The Department’s obligation to repay the CP Bank for advances made under the CP Line of Credit Agreement is secured by a pledge of and lien on Revenues on parity with the other Parity Obligations (including the Series 2016 Bonds) and constitute Parity Obligations. A redacted copy of the CP Line of Credit Agreement is available on the EMMA website at <http://emma.msrb.org/ER915156-ER714949-ER1116394.pdf> and <http://emma.msrb.org/ER915153-ER714946-ER1116392.pdf>. The information on such website is not part of this Official Statement and has not and is not incorporated by reference herein.

## **THE PORT AND THE DEPARTMENT**

### **Introduction and Organization**

**General.** The Port is located in San Pedro Bay approximately 20 miles south of downtown Los Angeles. The Port is held in trust by the City for the people of the State pursuant to a series of tidelands grants. The Department operates the Port independently from the City, using its own revenues, and administers and controls its fiscal activities, subject to oversight by the City Council. Under the

Charter, the Department is a proprietary, or independent, department of the City similar to the Department of Water and Power and Department of Airports. See “-Tidelands Trust Properties” below.

The Department has three major continuing sources of revenue: shipping revenue, which is a function of cargo throughput; revenue from the rental of the Port’s land and buildings (i.e., revenue from permit and lease agreements); and the smallest revenue component, fee and royalty revenue. In addition, the Department actively pursues grant opportunities at the federal, State and local levels to further supplement the funding obtained from the aforementioned revenue sources.

The Department operates the Port as a landlord, issuing permits to Port occupants for the use of Port land, docks, wharves, transit sheds, terminals and other facilities. The Department also is landlord to fish markets, ocean-related entities (i.e., fisheries and ship repair), railroads, restaurants and other similar operations. These arrangements are entered into under various lease and permit agreements. Under the permit agreements, the occupants agree to pay to the Department tariffs or fees established by the Department. Permittees are generally shipping or terminal companies, agents and other private firms. The Department has no direct role in managing the daily movement of cargo. The Department also recovers its costs of providing services and improvements through tariff charges for shipping services. In 2015, the Department provided facilities for approximately 148 shipping companies and agents. See “-Tidelands Trust Properties,” “—Operating Data—Terminal Operations,” “—Operating Data—Rental Property” and “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT.”

The inbound cargo handled at the Port and the nearby Port of Long Beach (a proprietary department of the City of Long Beach governed by its own board of harbor commissioners), which is adjacent to and east of the Port, is distributed throughout the Southern California region and the rest of the nation. [According to statistics compiled by the United States Department of Commerce, in calendar year 2013 (the latest data available), the Port was the number one port in the United States in terms of value of waterborne cargo shipped (exports and imports combined).] The Port primarily competes with the Port of Long Beach and other West Coast ports. Expansion of other ports, construction of additional ports and changes in access to or features of other ports may affect the Port in the future. See “CERTAIN INVESTMENT CONSIDERATIONS—Port Competition.”

***Physical Description and Geography.*** The Port’s facilities lie within the shelter of a nine-mile long breakwater constructed by the federal government in several stages, the first of which commenced in 1899. The breakwater encloses the largest man-made harbor in the western hemisphere. The Port encompasses approximately 7,500 acres (4,300 acres of land and 3,200 acres of water), including 43 miles of waterfront. The Port facilities included 27 terminal facilities, including eight major container cargo terminals, four break-bulk facilities, three dry bulk facilities, seven liquid bulk cargo terminals, two passenger cruise terminals, one vehicle handling facility, and two multi-use facilities. Additionally, the Port facilities include 270 berths (24 of which have Alternative Maritime Power (ship-to-shore power)), and 91 ship-to-shore containers cranes (including “Super-Post Panamax” and dual trolley cranes). The Port also is linked by subsurface pipelines to many of the major refineries and petroleum distribution terminals within the Los Angeles Basin.

The Port is a deep-water port and dredging of its main channel to a depth of -53 feet throughout has been recently completed in order to accommodate the most modern container ships. The Port currently has the capability to handle modern, deeper-draft vessels, adding to its efficiency and growth potential. However, Port growth may be limited by geographic, physical, economic and environmental regulatory limitations. See “—Environmental and Regulatory Matters.”

The Port is served by two major railroads (Union Pacific Railroad Company (“Union Pacific”), and BNSF Railway Company (formerly known as The Burlington Northern and Santa Fe Railway

Company) (“BNSF”)) that utilize the Alameda Corridor to move cargoes to and from the Port. The Alameda Corridor consists of a 20-mile long, multiple-track rail system that links the rail yards and tracks at the Port and the Port of Long Beach with Union Pacific’s and BNSF’s transcontinental mainlines originating near downtown Los Angeles, California. See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Alameda Corridor.”

Additionally, the Port lies at or near the terminus of two major interstate freeways, the I-110 and the I-705, within the Los Angeles area freeway system.

***Maintenance of Port Facilities.*** Because the Department operates primarily as a landlord, most of the Port facilities’ maintenance is undertaken by its permittees. The Department maintains most wharf structures within the Port as well as the shipping channel and berth depths. The Department retains in-house engineers and maintenance crews to conduct regular inspections of key Port facilities. Wharfs are inspected both above and below the water surface. Routine repairs and maintenance are performed by the Department’s Construction and Maintenance Division. These repairs and maintenance include replacement of timber fender piles, wharf fenders and other elements. Larger repairs and other preventive maintenance measures may be contracted out as part of the Department’s Wharf Inspection Program, an element of the Department’s Maintenance Improvement Program. See also “THE PORT AND THE DEPARTMENT—Capital Improvement Planning.”

The Port’s channels have moderate maintenance requirements because there is no major river source of sand or silt coming into the harbor. Sand and silt deposits are typically restricted to storm drain outlets and the adjacent Dominguez Channel. Maintenance dredging typically occurs every three years to remove any accumulations of deposits throughout the Port.

***Tidelands Trust Properties.*** Most of the property on which the Department’s land, docks, wharves, transit sheds, terminals and other facilities are located is owned by the State and administered by the City via the Department, subject to a trust created pursuant to certain tidelands grants from the State. These tidelands were granted to the City under the State Tidelands Trust Act by the California State Legislature in 1911 for the purpose of promoting commerce, navigation and fishery. California Assembly Bill 2769 (enacted in 2002) expanded the permitted uses of tidelands to include maritime commerce, fishing, navigation and recreation and environmental activities that are water-oriented and are intended to be of statewide benefit. Certain additional requirements and restrictions are imposed by the tidelands grants, including limitations on the sale and long-term leasing of tidelands and limitations on the use of funds generated from the tidelands and tidelands trust assets.

Under the tidelands trusts, funds from the tidelands may be transferred to the City’s General Fund only for tidelands trust purposes and may not be transferred to the City General Fund for general municipal purposes. All amounts in the Harbor Revenue Fund are subject to the tidelands trust use restrictions. The Department does not expect that restrictions on the use of tidelands or with respect to tidelands funds will materially adversely affect the operations or finances of the Department. Tidelands grants and terms of the tidelands trusts are subject to amendment or revocation by the State Legislature, as grantor of the trust and as representative of the beneficiaries (the people of the State).

***Organization and Management of the Department.*** The Department is governed by the Board which consists of five commissioners. Commissioners are appointed to staggered five-year terms by the Mayor, subject to confirmation by the City Council. The Charter requires one member of the Board to live within the area surrounding the Harbor District. The Board makes policy for the Department, controls all Department funds and adopts the budget. It sets rates in connection with permit agreements for its land facilities and services, subject, in some instances, to City Council review. The current

commissioners of the Board, their primary occupations and expiration of their current terms are shown below.

| <b>Board Commissioners</b> | <b>Occupation</b>                | <b>Term Expiring</b> |
|----------------------------|----------------------------------|----------------------|
| Vilma S. Martinez          | Former U.S. Ambassador/ Attorney | June 30, 2021        |
| David Arian                | Retired ILWU President           | June 30, 2019        |
| Edward R. Renwick          | Business Person                  | June 30, 2017        |
| Patricia Castellanos       | Non-Profit Executive             | June 30, 2018        |
| Anthony Pirozzi, Jr.       | Engineer                         | June 30, 2020        |

Pursuant to the Charter, each department created by the Charter will have a board of commissioners consisting of five commissioners, unless some other number is provided in the Charter for a specific board. Commissioners are appointed by the Mayor, subject to the approval of the City Council. The Charter requires that within 45 days of a vacancy, the Mayor will submit to the City Council for its approval the name of the Mayor’s appointee to serve for the next ensuing term or remainder of the unexpired term created by the vacancy. The Board elects one of its members as President and one as Vice-President. Elections are held during its last meeting in July of each year, but the Board may fill the unexpired term of any vacancy occurring in the office of President or Vice-President at any meeting.

The management and operations of the Department are under the direction of the Executive Director. Following is brief biographical information regarding members of the Department’s senior management team and the City Attorney serving the Department:

*Eugene D. Seroka, Executive Director.* In June 2014, Eugene D. Seroka became the Executive Director of the Department where he oversees the daily operations and internal management of the Department. As Executive Director, Mr. Seroka is responsible for managing a more than \$1 billion budget, advancing major capital projects, growing trade volumes and promoting innovative, sustainable practices that strengthen the region’s economy. His duties involve interacting with a wide range of stakeholders, including Port customers around the globe, industry partners, elected and appointed officials at all levels, harbor area residents and business leaders.

Mr. Seroka brings more than 27 years of experience in shipping, global logistics and executive management to the Port. Prior to his current position, Mr. Seroka served as Head of Commercial Operations in the American Region for American Presidents Line (APL) Limited, a wholly owned subsidiary of Singapore-based Neptune Orient Lines. Prior to that posting, Mr. Seroka was President of the American Region for APL, where he led more than 1,000 employees and was responsible for all commercial, port terminal, intermodal and labor activities throughout the region. Over the years, Mr. Seroka has held various positions in the sales management and marketing fields with increasing responsibility and high-level assignments all over the world. Mr. Seroka’s first overseas position was in Shanghai where he served as Director of Sales and Marketing for North and Central China from 1999 to 2003. He then moved to Jakarta where he was President Director of PT APL and APL Logistics in Indonesia for two years before relocating to Singapore in 2005 to become Vice President of APL Logistics’ business units in 26 countries in the company’s Asia/Middle East and South Asia regions. From 2008 to 2010 he served as Regional Vice President for APL and APL Logistics Emirates LLC in Dubai where he managed APL’s business in the Middle East and East Africa. He returned to the U.S. in 2010 to become President – Americas for APL Limited in Phoenix where he managed APL’s Liner Shipping business, including 1,000 employees, and was responsible for all commercial, port terminal, intermodal, land transportation and labor activities throughout the region.

Throughout his career, Mr. Seroka has played a key role in global marketing and corporate strategies for APL. Mr. Seroka began working for APL as a sales support representative after graduating from business school in 1988. Mr. Seroka earned a Bachelor of Science in Marketing from the University of New Orleans in 1986 and an MBA from the University of New Orleans in 1988.

*Doane Liu, Deputy Executive Director, Chief of Staff.* In January 2015, Doane Liu was appointed to be Deputy Executive Director and Chief of Staff at the Department. Mr. Liu joined the Department after serving as Deputy Mayor for the City of Los Angeles. He was appointed to be one of four deputy mayors by Mayor Eric Garcetti in July 2013. While serving as Deputy Mayor, Mr. Liu managed the Mayor's Office of City Services and helped the Mayor oversee 15 City departments, including Water and Power, Public Works, Transportation, Recreation and Parks, LA Public Library and the LA Zoo. He also established the Great Streets Studio and LA RiverWorks in the Mayor's office. Mr. Liu was previously Chief of Staff for Councilman Joe Buscaino and served as Chief of Staff for Councilwoman Janice Hahn, Deputy Mayor for Mayor James K. Hahn and District Director for Congresswoman Jane Harman. He was also Senior Vice President of government banking at JP Morgan Chase and Vice President in the Real Estate Industries Group at Security Pacific National Bank. Mr. Liu graduated from the Wharton School at University of Pennsylvania and received an MBA from the University of Southern California.

*Marla Bleavins, Deputy Executive Director and Chief Financial Officer.* In January 2015, Marla Bleavins was appointed to be Chief Financial Officer of the Department and subsequently, Deputy Executive Director. In these roles, Ms. Bleavins manages the Department's financial affairs, which include accounting, financial management, debt and treasury, risk management, audit, human resources, and contracts and purchasing functions. She previously served as the Assistant General Manager for Finance and Administration at the City of Los Angeles Department of Convention and Tourism Development. Prior to that, she served as a Project Manager and Debt and Treasury manager at Los Angeles World Airports. Ms. Bleavins began her career at the City of Los Angeles as a Budget Analyst and then as a Finance Specialist in the Office of the City Administrative Officer. During her tenure with the City, she managed approximately \$6 billion in bond financings that funded capital projects at Los Angeles International Airport and throughout the City. Ms. Bleavins holds a Bachelor of Arts degree in public policy and political science from Stanford University and a Master's degree in business administration from the Wharton School at the University of Pennsylvania.

*Thomas Gazsi, Chief of Public Safety and Emergency Management.* In November 2015, Thomas Gazsi was appointed Chief of Public Safety and Emergency Management for the Department. Chief Gazsi oversees the Los Angeles Port Police, Los Angeles Port Pilot and Information Technology Divisions at the Port. He holds the ultimate responsibility for Port-related security and public safety issues in the Port consisting of 43 miles of waterfront and 7,500 acres of land area adjacent to the harbor communities of San Pedro and Wilmington, in the City of Los Angeles. His divisions work cooperatively with associated government and law enforcement to uphold maritime laws, enforce safety, cyber security and security regulations and continually test and enhance emergency response and preparedness procedures to ensure the safety of the Port workforce and residents. Prior to joining the Department, he served as the Chief of Police for the Costa Mesa Police Department from 2011 to 2014, an agency of 220 personnel and a community of 117,000 in Southern California. Prior to his appointment in Costa Mesa, Chief Gazsi served a full career with the Newport Beach Police Department from 1979 through 2011 working his way up to Commander. Chief Gazsi is a graduate of University of Southern California's School of Public Policy and Management where he earned a bachelor's degree.

*Antonio Gioiello, Deputy Executive Director, Development.* In January 2015, Antonio Gioiello was appointed as Deputy Executive Director, Development at the Department. Mr. Gioiello joined the Department's leadership team after serving as chief harbor engineer for the previous 12 years. As Chief Harbor Engineer of the Department's Engineering Division, his projects varied in scope from planning

and design of the commercial and recreational redevelopment along the LA Waterfront to planning and design of container terminals, roadways, rail facilities, security, buildings, dredging and land reclamation projects. Before assuming his role as Chief Harbor Engineer, Mr. Gioiello served as Harbor Engineer, Chief of Design, where he was responsible for the management and technical oversight of the Department's Engineering Design section, specializing in the planning and design of various Port facilities, including container terminals, cruise facilities, highway and rail improvements. He began his career at the Department in 1980 as a student engineer. With more than 30 years of experience, Mr. Gioiello has spent much of his tenure managing various sections within the Department's Engineering Division, including the Civil/Planning, Special Projects, Terminal/Transportation Projects and Engineering Technology Administration sections. Mr. Gioiello holds a bachelor's degree in civil engineering from California State University, Long Beach and is a graduate of the UCLA Executive Program. He is a California State-registered civil engineer. As a member of the American Society of Civil Engineers, Mr. Gioiello has served as chairperson, vice chair and secretary-treasurer for the organization's Waterways, Harbors and Coast Group and as chairperson of the American Association of Port Authorities Facilities Engineering Committee.

*Michael DiBernardo, Deputy Executive Director, Marketing and Customer Relations.* In January 2015, Michael DiBernardo was appointed Deputy Executive Director, Marketing and Customer Relations at the Department. In this role, Mr. DiBernardo oversees the Department's Business Development, Environmental Management, Planning and Economic Development, Real Estate, and Wharfing Divisions. He previously served as Director of Business Development, where he was responsible for the direction and management of the Port's comprehensive sales, marketing and promotional program. Under Mr. DiBernardo's leadership for the past eight years, the Port's business development team administered the activities of the Port's network of overseas offices in trading centers around the world and provides marketing intelligence, promotion of the Port, technological assessments, and analysis of trade data that affects the Port's future competitive position. He previously served as the Department's Assistant Director of Marketing from 2003 to 2005, where he worked cooperatively with steamship lines and rail and terminal operators to promote Port facilities to key customers. In addition to his marketing background, Mr. DiBernardo also served as the Department's Director of Planning from February 2005 through January 2007, where he managed the Port's land use, facility-site, maritime and trade research activities, determined cargo forecast data and evaluated socioeconomic impact analyses. He began his career at the Department as a student worker in the late 1970s and later as a draftsman in the Department's Engineering Division in the early 1980s. Mr. DiBernardo rejoined the Department as a Marketing Manager in November 2002, after spending 19 years with APL, where he served in various management positions in marketing, operations, customer service, transportation and logistics. During his last five years with APL, Mr. DiBernardo was Director of Logistics in the Pacific Southwest Region where he worked with APL customers and the terminal operators in moving containers through the terminals. His expertise encompasses intermodal, maritime, security, labor opportunities and future planning initiatives impacting current terminal operators. Mr. DiBernardo holds a bachelor's degree in business administration from California State University, Dominguez Hills and a certificate in the Executive Management Program from UCLA.

*Soheila Sajadian, Director of Debt and Treasury Management.* In December 2006, Soheila Sajadian was appointed the Director of Debt and Treasury for the Department. As Director of Debt and Treasury, Ms. Sajadian is responsible for the management and oversight of the Department's debt portfolio, including the administration of its commercial paper program and cash management section. Prior to her current position, she served as a Financial Manager for the Department's Treasury Management Division, helping strengthen the Department's relationship with various rating agencies, in addition to working closely with outside bond and disclosure counsels, the investment banking community and the Department's financial advisors. In addition to developing methods for maintaining the Department's credit rating, she is responsible for the financing of capital improvement projects

through issuance of short-term and long-term debt and managing the Department's cash flow to ensure liquidity and the maximum rate of return on the Department's investments. Prior to joining the Department in 2003, Ms. Sajadian held several key financial positions at Fortune 500 companies, nonprofits and private corporations. Her experience includes program control, financial management, budget formulation, financial forecasts, contract pricing and program reviews for global outsourcing projects. In addition, she is a member of Government Finance Officers Association and California Municipal Treasurers Association. Ms. Sajadian holds a bachelor's degree in management science from Long Island University, a certificate in accounting from University of Virginia, and a Master's degree in business administration with concentration in finance from Virginia Polytechnic Institute.

*Janna Sidley, General Counsel.* Janna Sidley serves as the General Counsel and oversees all litigation involving the Department and the Port. As a member of the Port's senior management team, Ms. Sidley is the head of the Harbor Division of the Office of the City Attorney. In 2013, Ms. Sidley was appointed as Managing Assistant City Attorney at the Port. As General Counsel, Ms. Sidley supervises the attorneys who provide general legal advice to the Board, the Alameda Corridor Transportation Authority and the Intermodal Container Transfer Facility ("ICTF"). Harbor Division attorneys draft contracts, review projects and advise the Board and Department senior management on property management, marketing, international trade, maritime, fishing, environmental and railroad operating matters. Ms. Sidley joined the Los Angeles City Attorney's Office in 2003 and has worked as a trial deputy specializing in workers' compensation fraud and unfair business practices. In 2006, she was assigned to the Port, focusing on CEQA (as defined herein) and NEPA (as defined herein) matters. In 2010, Ms. Sidley transferred to the Los Angeles Department of Water and Power and has been responsible for all legal compliance requirements related to CEQA and NEPA. Prior to joining the City Attorney's Office, Ms. Sidley was an Assistant United States Attorney in Los Angeles from 1998 to 2002. She has worked at the Department of Justice in Washington, D.C., Department of the Interior, and White House. Ms. Sidley earned a Bachelor of Arts degree from University of California, Berkeley, and a Juris Doctor degree from Loyola Law School in Los Angeles.

*Neighborhood Councils.* The Charter provides that under applicable law the City Council may delegate its authority to hold public hearings to neighborhood councils prior to the City Council making a decision on a matter of local concern. The five neighborhood councils serving the Port area are the Coastal San Pedro Neighborhood Council, the Central San Pedro Neighborhood Council, the Wilmington Neighborhood Council, the Harbor City Neighborhood Council and the Northwest San Pedro Neighborhood Council. All of the neighborhood councils in the Port region hold regular meetings concerning areas of local interest and then refer their conclusions and resolutions to the City Council on an advisory basis.

*Port Security.* The Department's port security program is designed to secure the Port through prevention and deterrence. Port security operations are conducted by the Los Angeles Port Police. The port security program consists of operational security measures supported by advanced surveillance, communications, command and control and sensor systems. Additionally, the Department is engaged in development and implementation of national and international port and cargo security standards and regulations. The security program is closely coordinated with a number of federal, State and local agencies.

The Los Angeles Port Police conduct varied security operations including:

- (a) land and waterside patrols;
- (b) police boat escorts for vessels of special interest including cruise ships and tank vessels;

- (c) dive operations at selected berths and moored vessels;
- (d) sea marshal boardings of deep draft vessels to ensure safe passage;
- (e) advanced technology implementation, including the use of radar, mobile interoperable communications, marine, land and air video systems, and underwater explosive detection equipment;
- (f) deployment of explosive detection canines; and
- (g) inspection and control of dangerous cargo and hazardous materials.

The Los Angeles Port Police participate in joint agency security operations conducted with other law enforcement agencies, including the U.S. Coast Guard, the U.S. Customs and Border Protection, the Federal Bureau of Investigation, the Los Angeles Police Department, the Los Angeles Fire Department, the Los Angeles County Sheriff, and the Long Beach Police Department.

In addition to the security operations described above, these agencies coordinate intelligence analysis, training and exercises. The Los Angeles Port Police have officers assigned to several of the area intelligence and anti-terrorism task forces.

The Los Angeles Port Police also operates the Maritime Law Enforcement Training Center (the “MLETC”) which was developed in partnership with the State of California Emergency Management Agency and the U.S. Department of Homeland Security. The MLETC provides port and maritime professionals with the training required to police waterways throughout the country. Initial funding for course development and facility upgrades was provided through State and federal grants, with continued funding provided by student tuition and Department funds.

In order to enhance access control from the water-side, the Department has established Controlled Navigation Areas in certain parts of the Port and in the vicinity of commercial docks and vessels. The purpose of the Controlled Navigation Areas is to exercise a level of control over the thousands of recreational vessels using the Port.

Since 2010, the Department has been awarded approximately \$14.2 million in security grants to fund safety and security projects by federal and State government agencies, including the U.S. Department of Homeland Security, the Federal Emergency Management Agency, the Transportation Security Administration and the State Office of Homeland Security.

Over the last several years, the Department has implemented numerous initiatives to improve security at the Port, including a Port-wide surveillance camera system, a fiber optic data network, a state-of-the-art Department Operations Center, radiological threat protection training and the Transportation Workers Identification Credential secure access program. The Department also engages with the federal government and overseas ports in improving the security of international supply chains.

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## Operating Data

During Fiscal Year 2016, the Port handled approximately 8,391,000 TEUs. According to statistics compiled by the Journal of Commerce, during calendar 2015, the Port was the busiest container port in the United States, and the Port and the Port of Long Beach combined, ranked as the [tenth] busiest container port complex in the world in terms of TEUs handled. The following Table 1 provides a summary of the type and volume of cargo handled at the Port for the Fiscal Years 2007 through 2016 (unaudited). See also “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years.”

**Table 1**  
**Port of Los Angeles**  
**Revenue Tonnage by Cargo Type<sup>1</sup>**  
**(In Thousands of Metric Revenue Tons)**

| Fiscal Year<br>Ended June 30 | General<br>Cargo | Liquid<br>Bulk <sup>2</sup> | Dry<br>Bulk <sup>3</sup> | Total <sup>4</sup> | Percent<br>Increase/(Decrease)<br>in Total Tonnage<br>over Prior Year |
|------------------------------|------------------|-----------------------------|--------------------------|--------------------|---|
| 2007                         | 171,900          | 15,400                      | 2,800                    | 190,100            | 8.8%  |
| 2008                         | 161,900          | 6,200                       | 1,900                    | 170,000            | (10.6) <sup>6</sup>   |
| 2009                         | 144,400          | 11,100                      | 2,000                    | 157,500            | (7.4) <sup>6</sup>  |
| 2010                         | 145,800          | 10,700                      | 1,300                    | 157,800            | 0.2   |
| 2011 <sup>5</sup>            | 149,100          | 10,600                      | 1,200                    | 160,900            | 2.0   |
| 2012 <sup>5</sup>            | 163,900          | 9,900                       | 1,100                    | 174,900            | 8.7   |
| 2013                         | 156,300          | 7,800                       | 1,000                    | 165,100            | (5.6) <sup>7</sup>  |
| 2014                         | 165,000          | 10,500                      | 900                      | 176,400            | 6.8   |
| 2015                         | 165,100          | 10,300                      | 1,400                    | 176,800            | 0.2   |
| 2016 <sup>8</sup>            | 167,300          | 14,300                      | 1,200                    | 182,800            | 3.4   |

<sup>1</sup> Numbers are rounded.

<sup>2</sup> For Fiscal Year 2007, the indicated number includes 7,354,000 metric revenue tons, which represents a correcting entry for multiple prior years.

<sup>3</sup> Dry bulk cargo includes steel slabs, sulfur, pipe, beams, scrap metal, coal, ores, cement, fertilizers and bauxite.

<sup>4</sup> Computed on an accrual basis, adjusted for unverified amounts.

<sup>5</sup> Tonnage changes due to post-close adjustments.

<sup>6</sup> Due to the global economic downturn that began in December 2007, the Department experienced declines in total revenue tonnage in Fiscal Years 2008 and 2009.

<sup>7</sup> In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach and initially it impacted both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years” herein.

<sup>8</sup> Unaudited.

Source: Harbor Department of the City of Los Angeles

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The following Table 2A summarizes revenues per ton for Fiscal Years 2007 through 2016 (unaudited), and the following Table 2B shows the breakdown of shipping revenues by container and noncontainer for the same period. Shipping revenues are comprised of wharfage, dockage, demurrage, cranes, pilotage, assignment charges, and storage.

**Table 2A**  
**Port of Los Angeles**  
**Shipping Revenues Per Ton<sup>1</sup>**

| <b>Fiscal Year<br/>Ended<br/>June 30</b> | <b>Total Shipping<br/>Revenues<br/>(000s)</b> | <b>Total Revenue<br/>Tonnage<sup>2</sup></b> | <b>Shipping Revenue<br/>Per Ton</b> |
|--|---|--|-------------------------------------|
| 2007                                     | \$375,500                                     | 190,100                                      | \$1.98                              |
| 2008                                     | 374,900                                       | 170,000                                      | 2.21                                |
| 2009                                     | 329,300                                       | 157,500                                      | 2.09                                |
| 2010                                     | 327,600                                       | 157,800                                      | 2.08                                |
| 2011                                     | 343,500                                       | 160,900 <sup>3</sup>                         | 2.13                                |
| 2012                                     | 357,700                                       | 174,900 <sup>3</sup>                         | 2.05                                |
| 2013                                     | 347,900 <sup>4</sup>                          | 165,100 <sup>4</sup>                         | 2.11                                |
| 2014                                     | 377,200                                       | 176,400                                      | 2.14                                |
| 2015                                     | 364,900                                       | 176,800                                      | 2.06                                |
| 2016 <sup>5</sup>                        | 368,500                                       | 182,800                                      | 2.02                                |

<sup>1</sup> Numbers are rounded.

<sup>2</sup> Computed on an accrual basis, adjusted for unverified amounts.

<sup>3</sup> Tonnage changes due to post-close adjustments.

<sup>4</sup> In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach and initially it impacted both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years" herein.

<sup>5</sup> Unaudited.

Source: Harbor Department of the City of Los Angeles

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**Table 2B  
Port of Los Angeles  
Shipping Revenue Breakdown<sup>1</sup>**

| <b>Fiscal Year<br/>Ended June 30</b> | <b>Container Shipping Revenues</b>                |   |                        |   | <b>Non-Container Shipping Revenues</b>                         |   |  |
|--------------------------------------|---|---|------------------------|---|--|---|--|
|                                      | <b>Total<br/>Shipping<br/>Revenues<br/>(000s)</b> | <b>Container<br/>Shipping<br/>Revenues<br/>(000s)</b> | <b>TEUs<br/>(000s)</b> | <b>Container<br/>Shipping<br/>Revenue<br/>Per TEU</b> | <b>Non-<br/>Container<br/>Shipping<br/>Revenues<br/>(000s)</b> | <b>Non-<br/>Container<br/>Tons<br/>(000s)</b> | <b>Non-<br/>Container<br/>Shipping<br/>Revenue<br/>Per Ton</b> |
| 2007                                 | \$375,500   | \$324,200   | 8,650                  | \$37.48   | \$51,300   | 21,731  | \$2.36   |
| 2008                                 | 374,900   | 328,800   | 8,083                  | 40.68   | 46,100   | 18,450  | 2.50   |
| 2009                                 | 329,300   | 293,100   | 7,262                  | 40.36   | 36,200   | 14,518  | 2.49   |
| 2010                                 | 327,600   | 296,500   | 7,228                  | 41.02   | 31,100   | 12,525  | 2.48   |
| 2011                                 | 343,500   | 306,300   | 7,935                  | 38.60   | 37,200   | 14,896  | 2.50   |
| 2012                                 | 357,700   | 321,900   | 8,186                  | 39.32   | 35,800   | 13,800  | 2.59   |
| 2013 <sup>2</sup>                    | 347,900   | 313,700   | 7,777                  | 40.34   | 34,200   | 11,700  | 2.92   |
| 2014                                 | 377,200   | 335,700   | 8,210                  | 40.89   | 41,500   | 14,900  | 2.79   |
| 2015                                 | 364,900   | 325,500   | 8,191                  | 39.74   | 39,400   | 15,100  | 2.61   |
| 2016 <sup>3</sup>                    | 368,500   | 324,100   | 8,391                  | 38.62   | 44,400   | 18,500  | 2.40   |

<sup>1</sup> Numbers are rounded.

<sup>2</sup> In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach and initially it impacted both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See “FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years” herein.

<sup>3</sup> Unaudited.

Source: Harbor Department of the City of Los Angeles

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The Port's major trading partners are the "Pacific Rim" countries, including China, Japan, Taiwan, South Korea, Vietnam, Hong Kong and Thailand. China alone was the destination for approximately [37.9]% of the Department's Fiscal Year 2016 exports, and approximately [58.7]% of the Department's Fiscal Year 2016 imports.

The following Table 3 shows a breakdown of total TEUs by country of origin for imports and country of destination for exports. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years" below.

**Table 3**  
**Port of Los Angeles**  
**TEUs By Country**  
**Fiscal Year 2016**  
**[To Be Updated]**

| <b>Exports</b> |                  |                   | <b>Imports</b> |                  |                   |
|----------------|------------------|-------------------|----------------|------------------|-------------------|
| <b>Country</b> | <b>TEUs</b>      | <b>% of Total</b> | <b>Country</b> | <b>TEUs</b>      | <b>% of Total</b> |
| China          | 609,179          | 37.9%             | China          | 2,366,581        | 58.7%             |
| Japan          | 210,751          | 13.1              | Japan          | 253,512          | 6.3               |
| Taiwan         | 169,721          | 10.6              | Vietnam        | 227,801          | 5.6               |
| South Korea    | 155,960          | 9.7               | Taiwan         | 217,241          | 5.4               |
| Hong Kong      | 50,027           | 3.1               | South Korea    | 190,170          | 4.7               |
| Vietnam        | 46,542           | 2.9               | Thailand       | 158,369          | 3.9               |
| Indonesia      | 39,484           | 2.5               | Hong Kong      | 106,946          | 2.7               |
| Thailand       | 36,946           | 2.3               | Indonesia      | 103,723          | 2.6               |
| Singapore      | 35,832           | 2.2               | Malaysia       | 70,222           | 1.7               |
| Philippines    | 29,440           | 1.8               | India          | 50,342           | 1.2               |
| All Others     | <u>222,330</u>   | <u>13.9</u>       | All Others     | <u>287,276</u>   | <u>7.2</u>        |
| Total Exports  | <u>1,606,212</u> | <u>100.0%</u>     | Total Imports  | <u>4,032,183</u> | <u>100.0%</u>     |

Source: Ports Import Export Reporting Services (Data from PIERS excludes domestic cargo and empties).

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The following Table 4 shows the top container ports in the United States and Canada as measured by total TEUs handled (inbound loaded TEUs, outbound loaded TEUs and empty TEUs) by each respective port for the calendar year ended December 31, 2015. See “CERTAIN INVESTMENT CONSIDERATIONS—Port Competition.”

**Table 4**  
**Top Container Ports in United States and Canada**  
**Total TEUs**  
**Calendar Year 2015**  
**(in thousands of TEUs)**

| <b>Port</b>                              | <b>Total TEUs<sup>1</sup></b> |
|--|-------------------------------|
| Port of Los Angeles                      | 8,160                         |
| Port of Long Beach                       | 7,192                         |
| Port of New York and New Jersey          | 6,372                         |
| Port of Savannah                         | 3,737                         |
| Ports of Seattle and Tacoma <sup>2</sup> | 3,529                         |
| Port of Vancouver (Canada)               | 3,054                         |
| Port of Virginia (Norfolk)               | 2,549                         |
| Port of Oakland                          | 2,278                         |
| Port of Houston                          | 2,131                         |

<sup>1</sup> Includes inbound loaded TEUs, outbound loaded TEUs and empty TEUs.

<sup>2</sup> In August 2015, the Ports of Seattle and Tacoma formed a port development authority, the Northwest Ports Alliance, to jointly manage the container, breakbulk, auto and some bulk terminals at the Ports of Seattle and Tacoma.

Source: Port of Los Angeles data, Harbor Department of the City of Los Angeles; data for other ports derived from websites of each respective port.

### ***Terminal Operations.***

***General.*** The Department operates the Port as a landlord, issuing permits to a diverse range of cargo-handling companies for the use of Port land, docks, wharves, transit sheds, terminals and other facilities. These arrangements are entered into under various lease and permit agreements. Under the permit agreements the occupants agree to pay tariffs and fees to the Department. Permittees are generally shipping or terminal companies, agents and other private firms. These permits have varying expiration dates over the term of the Series 2016 Bonds. The Department has no direct role in managing the daily movement of cargo. [In 2015, the Department provided facilities, which included 27 terminal facilities and 43 miles of waterfront berthing, for approximately 148 shipping companies and agents.] The Department also is landlord to fish markets, ocean related entities (i.e., fisheries and ship repair), railroads, restaurants and other similar operations. Shipping companies and agents are given preferential assignments to berths at the Port by the Department in order to allow such companies to handle all their ships at the same berth or berths. A berth refers to the location within the Port used for fastening vessels to a pier (or mooring). These assigned berths become the companies’ bases of operations at the Port. The Department reserves the right to assign other ships temporarily to berths which have been preferentially assigned when there is space available. The Department also recovers its costs of providing services and improvements through tariff charges for shipping services. The Port’s major permittees (tenants) as of June 30, 2016 are shown in the following Table 5.

**Table 5**  
**Port of Los Angeles**  
**Major Permittees (Tenants)**  
**As of June 30, 2016**

APM Terminals Pacific LTD/Maersk  
Ardagh Metal Packaging USA, Inc.  
China Shipping Holding Company, LTD  
Eagle Marine Services Ltd.  
Everport Terminal Services Inc.  
Exxon-Mobil Oil Corporation  
Kinder Morgan/GATX Terminals Corporation  
Parking Concepts, Inc.  
Phillips 66 Company  
Ports America Cruise, Inc.  
Princess Cruises, Inc.  
Rio Doce Pasha Terminal, L.P.  
SA Recycling/Hugo Neu-Proler Corp  
Shell Oil Company  
TraPac, Inc.  
Union Pacific Railroad Company  
Vopak/Wilmington Liquid Bulk Terminal  
WWL Vehicle Services Americas/Distribution and Auto Service  
Yang Ming Transport Ltd.  
Yusen Terminal Inc./N.Y.K. (North America) Inc.

Source: Harbor Department of the City of Los Angeles

*Revenues Related to Terminal Operations and Tariff Setting.* The Department's ten largest permittees accounted for approximately 81% of Fiscal Year 2016 operating revenues. Most of these major permittees generate revenues for the Port through the handling of TEUs.

The Department sets tariff charges for, among other things, wharfage, dockage, storage, pilotage, land usage, passenger fees, storage and demurrage applicable to all ships and cargo using Department owned property and necessary for the orderly movement of cargo. The Department and all other State public ports control and determine their own individual tariff structures. However, the ports cooperate in setting tariff rates through membership in the California Association of Port Authorities ("CAPA"). One of CAPA's goals is to establish and maintain reasonable and, as far as practicable, uniform terminal rates, charges, classifications, rules and regulations for the handling and movement of domestic and foreign waterborne cargo. These tariff provisions cover, among other things, space assignments at marine terminal facilities, as well as other miscellaneous terminal charges necessary for the orderly movement of cargo. The goal is to permit State ports to obtain an adequate return on investment in order to facilitate the necessary maintenance, expansion and improvement of marine facilities. CAPA is exempt from federal antitrust laws, thereby allowing for this cooperative rate setting.

Most of the Port's largest cargo handling permittees are located at terminals which are under long-term permit agreements, generally of 20 to 30 years duration. These permit agreements typically require a portion of the Department's gross tariff on cargo passing through the terminal to be shared by the Department with the permittee, or have the permittee's compensation tied to an efficiency scale

measured by TEUs handled per acre. These provisions generally result in a tariff discount to the facility operator as the volume of cargo increases. The amounts of these discounts, or revenue sharing, or the TEU rate, are based on the volume of cargo handled at the applicable facility, and are typically subject to certain minimum annual guaranteed amounts payable to the Department. The following Table 6 details estimated minimum annual revenues from permit agreements payable to the Department (including minimum annual guarantee income and contractual rental revenues) over the next five Fiscal Years.

**Table 6**  
**Port of Los Angeles**  
**Estimated Minimum Annual Permit**  
**Revenue Under Existing Permits**

| <b>Fiscal Year<br/>Ended June 30</b> | <b>Minimum Permit<br/>Revenue<br/>(\$000s)</b> |
|--------------------------------------|--|
| 2016                                 | \$295,408                                      |
| 2017                                 | 295,883  |
| 2018                                 | 296,362  |
| 2019                                 | 296,471  |
| 2020                                 | 296,952  |

Source: Harbor Department of the City of Los Angeles

**Rental Property.** In addition to its marine terminal operations, the Department enters into lease and permit agreements with respect to industrial sites, open land area and other Port property. Such agreements are authorized for terms of not more than 50 years. Pursuant to requirements of the Charter all rates payable to the Department under the agreements must be subject to review and renegotiation by the Department at intervals of not more than five years. Most agreements do not extend beyond 30 years and rates payable to the Department under the agreements are generally renegotiated every five years.

The Department’s Real Estate Division conducts frequent reviews and appraisals of property and rates in order to assure the Department of an adequate return on its property used under lease and permit agreements.

The Board has adopted a comprehensive leasing policy (the “Leasing Policy”) which applies to all Port property agreements. The Leasing Policy provides the Department with a framework in making leasing decisions, increasing efficiency and achieving consistency and transparency in the development of new property agreement and modifications to existing property use agreements. The Leasing Policy requires all new permits or amendments to existing permits to include covenants to comply with environmental standards. The Leasing Policy includes procedures for the leasing of Port property, for solicitation and selection of tenants, for setting rates and pricing for use of Port property and for assignments and subleases.

**Capital Improvement Planning**

**Overview.** In connection with its capital improvement planning the Department reviews and monitors its long-term capital needs on an on-going basis and has identified capital improvement projects through Fiscal Year 2025. However, some of the projects being considered by the Department are in different stages of discussion and remain subject to change. In prioritizing its projects, the Department is taking into account, among other things, business needs, cash flow position, trends in TEU counts and legal and regulatory requirements.

**Capital Plan Budgeting Process.** Pursuant to Section 11.28.3 of the Los Angeles Administrative Code, not later than June 1 of each year, the Department is required to provide, for information purposes only, to the Mayor, to the Trade, Commerce and Technology Committee of the City Council (or such successor committee deemed appropriate by the City Council), and to the City Controller, a capital plan or budget covering at least the next Fiscal Year and describing: (i) the proposed capital expenditures of the Department; (ii) the proposed method(s) of financing such proposed expenditures including a discussion, if relevant, of financing alternatives; and (iii) a description of any proposed debt financings. Under the Charter, the Department is obligated to submit a debt accountability and major capital improvement plan to the Mayor, the City Council and the City Controller every two years in conjunction with submittal of its annual budget. The Department submitted its last debt accountability and major capital improvement plan to the City Council in September 2015. Funding for capital projects is subject to annual appropriations from the Department’s budget, which must be approved by the Board. The Department’s most recent long-term capital improvement plan, when finalized will be presented to the Board for approval.

The following Table 7 sets forth the Department’s projected capital improvement program expenditures and funding sources for Fiscal Years 2017 through 2021 (data as of June 2016)]. Such projections are based on the Department’s capital improvement program plan.

**Table 7**  
**Port of Los Angeles**  
**Projected Capital Improvement Program Expenditures and Funding<sup>1</sup>**  
**(in millions of dollars)**

| <b>Fiscal Year<br/>Ending<br/>June 30</b> | <b>Total<br/>Capital<br/>Improvement<br/>Plan<br/>Expenditures<sup>2</sup></b> | <b>Source of Funding</b> |                              |                         |
|---|--|--------------------------|------------------------------|-------------------------|
|   |  | <b>Port<br/>Cash</b>     | <b>Government<br/>Grants</b> | <b>Debt<sup>3</sup></b> |
| 2017                                      | \$146  | \$105                    | \$41                         | –                       |
| 2018                                      | 149  | 145                      | 4                            | –                       |
| 2019                                      | 193  | 193                      | –                            | –                       |
| 2020                                      | 136  | 136                      | –                            | –                       |
| 2021                                      | <u>48</u>  | <u>48</u>                | <u>–</u>                     | <u>–</u>                |
| Total                                     | <u>\$672</u>   | <u>\$627</u>             | <u>\$45</u>                  | –                       |

<sup>1</sup> The projected timing, expenditure and funding of the capital improvement program are subject to change and the Department cannot anticipate future changes in the timing, expenditure and funding of the capital improvement program.

<sup>2</sup> Projected capital improvement project expenditures and funding described in this table are based on the Department’s forecasted revenues and include those projects that are in planning, design or construction. Some of the costs projected relating to planning and design may change as such projects are further refined during such period. These figures do not include projects that are under conceptual development wherein the costs have not yet been determined, but which may be material.

<sup>3</sup> The Department may issue Commercial Paper Notes from time to time to finance a portion of its capital improvement program on a short-term basis.

Source: Harbor Department of the City of Los Angeles

**Proposition 1B Funding.** In November 2006, State voters approved “Proposition 1B,” which authorized the State to sell \$19.925 billion of general obligation bonds to fund transportation projects “to relieve congestion, improve the movement of goods, improve air quality and enhance the safety and security of the transportation system.” More specifically, Proposition 1B aimed to do the following: (i)

make safety improvements and repairs to state highways; (ii) upgrade freeways to reduce congestion; (iii) repair local streets and roads; (iv) upgrade highways along major transportation corridors; (v) improve the seismic safety of local bridges; (vi) expand public transit; (vii) help complete the State's network of car pool lanes; (viii) reduce air pollution; and (ix) improve anti-terrorism security at shipping ports. The authority for the use of any Proposition 1B bond funds is required to be provided for in the State's Budget Act.

The Department was awarded \$20.0 million of Proposition 1B funds for port security projects through the State Port and Maritime Security Grant Program. The construction of a variety of security related projects funded by moneys awarded under Proposition 1B, including the Multi-Agency Maritime Law Enforcement Officer Training Center located at the Port Police Wilmington Substation, have been completed. As of June 30, 2013, all of the Proposition 1B funding awarded for security related projects had been billed and received by the Department and all of the security related projects were completed. The Department continues its efforts to secure additional funding for other trade, security and air quality projects.

The Department also was awarded \$23.7 million of additional Proposition 1B funding to install shore-side electrical power, also referred to as "Alternative Maritime Power" or "AMP", at ten berths at the Port. As of June 30, 2016, the Department had constructed and installed AMP equipment at all ten berths, and the total grant amount of \$[23.7] million had been requested and reimbursed to the Department.

Additionally, the Department has been awarded \$62.9 million of Proposition 1B funds for the Trapac Terminal expansion project. See "-Capital Improvement Projects—Terminal Projects—TraPac Terminal Expansion" below for additional information on the TraPac Terminal expansion project.

In addition to the awards of Proposition 1B moneys discussed above, the Department has been awarded Proposition 1B moneys for the following transportation projects (i) the Berth 200 Rail Yard (\$50.1 million), (ii) the South Wilmington Grade Separation (\$15.0 million), (iii) the I-110/SR-47/Harbor Boulevard Connection (\$13.2 million), (iv) the YTI Terminal (\$8.4 million), and (v) the I-110/C Street Access Ramp (\$8.3 million).

As of June 30, 2016, a total of \$[201.7] million of Proposition 1B funding had been awarded to the Department and approximately \$[148.2] million has been billed and received by the Department.

***Capital Improvement Projects.*** The Department's capital improvement projects are categorized into five types of projects: (i) Terminal Projects, (ii) Transportation Projects, (iii) Security Projects, (iv) Public Access/Environmental Enhancement Projects, and (v) Maritime Services Projects.

The Department's expenditures for capital improvement projects in Fiscal Year 2016 were approximately \$149.3 million comprised of: Terminal Projects (a total of approximately \$106.3 million), Transportation Projects (a total of approximately \$32.7 million), Security Projects (a total of approximately \$0.2 million), Public Access/Environmental Enhancement Projects (a total of approximately \$5.5 million), and Maritime Services Projects (a total of approximately \$4.5 million).

For Fiscal Year 2017 the Department has budgeted \$146.1 million for capital improvement projects in the following categories: Terminal Projects (approximately \$87.6 million), Transportation Projects (approximately \$16.2 million), Security Projects (approximately \$1.1 million), Public Access/Environmental Enhancements (approximately \$16.8 million), and Maritime Services Projects (approximately \$24.4 million). The largest of these projects is expected to be the Trapac Container

Terminal. See “Terminal Projects” below. The timing of completion for all capital projects is subject to uncertainties and delays, some of which are outside the control of the Department.

The following Table 8 provides a summary of the total estimated project costs by category of the Department’s capital improvement program for Fiscal Years 2017 through 2021. Such estimates are based on the Department’s capital improvement program plan.

**Table 8**  
**Port of Los Angeles**  
**Capital Improvement Program by Category**  
**Fiscal Years 2017-2021**

| <b>Project Category</b>                  | <b>Estimated Total Cost<br/>(\$ millions)</b> |
|--|---|
| Terminal Projects                        | \$318   |
| Transportation Projects                  | 29  |
| Security Projects                        | 1   |
| Public Access/Environmental Enhancements | 183   |
| Maritime Projects                        | <u>141</u>                                    |
| Total <sup>1</sup>                       | <u>\$672</u>                                  |

<sup>1</sup> Numbers may not total due to rounding.

Source: Harbor Department of the City of Los Angeles

Following are summaries of certain of the Department’s current capital improvement projects:

**Terminal Projects.**

**TraPac Terminal Expansion.** The TraPac terminal project (the “TraPac Terminal Project”) includes expansion between Berths 136 and 147 on the Port’s northwest perimeter to facilitate TraPac’s expansion of cargo handling and to increase efficiency. The Department estimates that the TraPac Terminal Project will increase potential related TEU throughput by TraPac from 900,000 TEUs (baseline year 2003) to 2.4 million TEUs by 2025. The TraPac Terminal Project consists primarily of wharf and backland improvements, an intermodal container transfer facility, terminal buildings and installation of Alternative Maritime Power (“AMP”) improvements (consists of plugging into shore-side electrical power while at dock). The facility spans 210 acres. The TraPac Terminal Project will be the Port’s most advanced container terminal with advanced automation technology being implemented for the new backland and railyard areas. The TraPac Terminal Project has a budget of \$510 million (approximately \$37 million of which remains to be expended) and is expected to be completed in March 2017. Construction of the wharf improvements, Phase 1A, 1B, 1C and Phase 2 backland improvements, new main gate, terminal buildings and the On-Dock Rail Facility have been completed. Construction of backland improvements in Phases 3 and 4 are in progress. The Department intends to use proceeds from previously issued bonds and cash from operations to finance costs of the TraPac Terminal Project. The Department’s long-term contract with TraPac expires in 2039. See “—Environmental and Regulatory Matters—Recent Developments Relating to TraPac EIR” below for recent developments with respect to the TraPac Terminal Project Environmental Impact Report (“EIR”).

**YTI Terminal Expansion.** The Yusen Terminals Inc. (“YTI”) container terminal redevelopment project (the “YTI Container Terminal Redevelopment Project”) includes backland and wharf improvement and expansion of the ICTF located at the YTI terminal. The facility spans 183 acres. The backland improvement includes pavement repair and the construction of concrete runways. Wharf improvements include dredging at Berths 217-220 from an existing depth of -45 feet to -47 feet, dredging

at Berths 214-216 from an existing depth of -45 feet to -53 feet, new landslide crane rail extension along Berths 217-220 and four AMP box relocations from Berths 214-216 to Berths 217-220. The EIR and the Environmental Impact Statement (“EIS”) for the YTI Container Terminal Redevelopment Project was completed in November 2014. The YTI Container Terminal Redevelopment Project is in construction and is estimated to cost approximately \$85 million (approximately \$47.4 million of which remains to be expended) and is expected to be completed in November 2017. The Department intends to use proceeds from previously issued bonds and cash from operations to finance costs of the YTI Container Terminal Redevelopment Project. The Department’s long-term contract with YTI expires in 2026.

China Shipping Terminal Expansion. The China Shipping expansion project (the "China Shipping Project") provides for a long-term permit agreement with China Shipping and expands China Shipping's terminal capacity to accommodate an annual throughput of 1.5 million TEUs. The facility footprint is being expanded from an existing 73 acres to 132 acres of backland and 2,500 feet of wharf to be served by ten Postpanamax A-frame cranes. The three main phases of the China Shipping Project have been completed. Phase I was completed in December 2004 and consisted of construction of 1,200 feet of wharf at Berth 100, 73 acres of backland development and Access Bridge No. 1. Phase II was completed in December 2010 and consisted of construction of 925 feet of wharf at Berth 102, 18 acres of backland development and Access Bridge No. 2. Phase III was completed in November 2013 and consisted of construction of 375 feet of wharf and 41 acres of backland development. AMP improvements also were installed at the container wharves constructed in Phases I, II and III. Phases II and III also consisted of wharf expansion, backland development, a marine operations building, a crane maintenance building, relocation of the Catalina Express Terminal and installation of AMP improvements. POLA's long-term contract with China Shipping expires in 2030.

The China Shipping Project also includes several community beautification initiatives, including the redevelopment of an existing community park in San Pedro (Plaza Park), which is currently under construction, and implementing a beautification plan along area corridors and landscaping along Front Street which runs parallel to the terminal perimeter. The Department intends to use cash from operations to finance the costs of the remaining components of the China Shipping Project. See “-Environmental and Regulatory Matters-Recent Developments Relating to China Shipping EIR” below for recent developments with respect to the China Shipping Project EIR.

Everport Redevelopment. Redevelopment at Berths 226 through 236 (the “Everport Redevelopment”) consists of various projects within the Everport Container Terminal. These projects include terminal improvements such as dredging Berths 226 through 229 to a depth of -53 feet and Berths 230 through 232 to a depth of -47 feet as well as developing 1.5 acres of new terminal backland. In addition, the Everport Redevelopment includes: AMP upgrades and retrofits, panzerbelt trench upgrades and the installation of a water leak detection system. In total, the Everport Redevelopment is expected to cost approximately \$60 million. Environmental studies and the design of the Everport Redevelopment improvements are currently underway with construction expected to begin in the first quarter of 2018.

AltaSea at the Port of Los Angeles. In December 2013, the City Council approved a 50 year lease to AltaSea at the Port (“AltaSea”), a California public benefit corporation established to transform approximately 36 acres on the LA Waterfront’s City Dock No. 1 located south of 22nd Street and along Signal Street in San Pedro. AltaSea will re-purpose the 100-year old wharves and warehouse nos. 57-60 into an urban marine research and educational center, marine-related and water-dependent business incubator/accelerator and auxiliary uses, as well as provide improvements to tie into the LA Waterfront’s public promenade (“AltaSea Development”). The AltaSea Development will be funded through a private public partnership comprised of the Department, private philanthropic donations, government and corporate grants, and regional public and private universities. As of the date of this Official Statement, the overall project scope related to the AltaSea Development is being redefined. Currently, the

Department's funding commitment pursuant to the lease requirement includes \$58 million in site-related capital investment for Phase 1 of the project.

Marine Oil Terminal Engineering and Maintenance Standards Implementation. Built between 1919 and 1959, the Port has seven liquid bulk facilities (including storage tanks and underground pipeline networks) that handle various types of commodities for both import and export. Vessels calling at these facilities include tankers, barges and bulk carriers. Oil cargo operations within the State generally fall under the jurisdiction of the California State Lands Commission (the "State Lands Commission"). Effective February 2006, the State Lands Commission established the Marine Oil Terminal Engineering and Maintenance Standards ("MOTEMS") which apply to all existing and new marine oil terminals in the State. One such standard required the Port's oil terminal facilities to undergo an initial audit, the purpose of which was to determine "Fitness-for-Purpose" of all marine oil terminals. Initial audits were performed at Berths 118-120, 148-151, 163, 164, 167-169, 187-191, and 238-239. As a result of these initial audits, Kinder Morgan's operations at Berths 118-120 will be de-commissioned within five years.

Another MOTEMS requirement is that all liquid bulk wharves at the Port be significantly upgraded or replaced. Through ongoing discussions with the State Lands Commission, the Department has agreed to upgrade or replace its liquid bulk wharves by Fiscal Year 2020. As of June 2016, aggregate costs of the upgrade or replacement of liquid bulk wharves are estimated to be approximately \$180 million. Any reimbursement of these costs to the Department will be negotiated with the marine oil terminal tenants as part of currently ongoing lease negotiations. As of the date of this Official Statement, the Department's financial participation in the costs of these liquid bulk wharf upgrades or replacements are capped at \$7.5 million per berth (or \$60 million in the aggregate). The Department intends to use cash from operations to finance costs of the MOTEMS implementation.

A majority of the total remaining project costs related to the aforementioned terminal projects have been included in the Department's capital improvement program for Fiscal Years 2017 through 2021. The Department also is reviewing additional terminal projects related to the land and facilities currently utilized by cruise ship operators, Yang Ming and APL. However, the Department will not advance the design and construction of these facilities until it and the applicable tenants have reached agreement on, among other things, the scope and costs of the projects. Certain of these projects are described below.

Cruise Terminal. Since 2008, the Department has invested more than \$42 million in improvements to its World Cruise Center. The improvements include four new gangway systems, two complete AMP berths, new rooftop solar panels designed to generate approximately one megawatt of electricity, and other improvements, including new fenders, parking lot reconfigurations, painting, lighting and audio/video upgrades. The Department is planning to expand the current AMP system to allow greater flexibility to accommodate larger cruise ships. The Department also has approved an additional cruise ship terminal at Kaiser Point in the outer harbor terminal which would operate in conjunction with the existing World Cruise Center, enabling the Port to provide more berth space to simultaneously accommodate the larger Voyager class cruise ships and improved navigation for larger ships. Construction of the outer harbor cruise terminal will not be undertaken until such time as market conditions warrant an expansion of the current facilities.

Yang Ming Terminal Project. The Yang Ming terminal project (the "Yang Ming Terminal Project") represents a redevelopment program to upgrade a portion of existing container wharves at Berths 121 through 131 and expand the ICTF located at the Yang Ming terminal. As part of the currently planned container wharf upgrades, an existing 50-foot wharf and dike at Berths 127 through 129 is planned to be demolished and a new 1,260 linear foot wharf that can accommodate a typical 14,000 TEU vessel, approximately 6 to 10 additional cranes as well as AMP infrastructure will be constructed in its

place. In addition, Berths 127 through 129 will be dredged to a depth of -53 feet. In addition to the aforementioned wharf upgrades, the Yang Ming Terminal Project is expected to include expansion of the ICTF with four additional loading tracks. As of June 2016, remaining design and construction work on this project has been put on hold while negotiations with the tenant take place.

APL Terminal Project. The APL terminal project (the “APL Terminal Project”; also known as the “Berths 302-306 Container Terminal Improvements”) consists of multiple projects to expand the container terminal located at Berths 302-306 by approximately 50 acres and to modify some existing terminal elements. The expansion area improvements would include: approximately 1,250 linear feet of new wharf, AMP installations, dredging, approximately 41 acres developed for automated operations and approximately 6 acres redeveloped for container terminal operations. As part of the currently conceived project, the existing tenant would also redevelop 17 acres for an automated landside transfer facility as well as an outside truck holding area. The APL Terminal Project is currently estimated to cost approximately \$250 million. The EIR/EIS for the APL Terminal Project was completed in May 2012, and the construction of AMP installations and associated infrastructure at Berths 302 through 305 was completed in March 2014. Through June 2016, approximately \$45 million has been spent on AMP installation and other miscellaneous improvements. As of June 2016, remaining design and construction work for this project had been put on hold while negotiations with the tenant take place.

### **Transportation Projects.**

I-110 Connectors Improvement Program. The I-110 Connectors Improvement Program (the “ICIP”) consists of several arterial street and freeway-to-freeway interchange improvements in the immediate vicinity of the intersection of SR 47 (Vincent Thomas Bridge) and the I-110 freeway. The projects provided for under the ICIP are designed to improve freeway access to Port facilities, eliminate traffic movement conflicts, improve existing non-standard elements, and better accommodate existing and future traffic conditions for the Port and background traffic. The Department and the California Department of Transportation (“Caltrans”) are working in partnership on implementing the ICIP. The ICIP received environmental clearance in February and June 2012 and construction began in November 2013 and will be completed in January 2017. The cost of the ICIP is approximately \$104.1 million, of which the Department is responsible for approximately \$64.0 million. The Department has used or intends to use cash from operations to finance its portion of the costs of the ICIP. The remaining \$40.1 million of funding for the ICIP, is expected to come from grants obtained from various authorities including: the Los Angeles County Metropolitan Transportation Authority, Proposition 1B, the California State Corridors Improvement Funds and the Federal Safe, Accountable, Flexible, Efficient Transportation for Equity Act: A Legacy for Users.

Security Projects. Over the last several years, POLA has implemented numerous initiatives to improve security at its facilities, including a Port-wide surveillance camera system, a fiber optic data network, a state-of-the-art Department Operations Center, radiological threat protection training and the Transportation Workers Identification Credential secure access program. See “THE PORT AND THE DEPARTMENT—Introduction and Organization—Port Security” above for a description of the security projects included in the Department’s capital improvement program.

Public Access/Environmental Enhancements. The LA Waterfront Program is an initiative to improve and enhance areas located along the waterfronts of Wilmington and San Pedro. The LA Waterfront Program is comprised of two segments, the Wilmington Segment and the San Pedro Segment. The Wilmington Segment includes two complementary projects, the Wilmington Waterfront Park Project (the “Wilmington Waterfront Park Project”) and the Wilmington Waterfront Project (the “Wilmington Waterfront Project”). The Wilmington Waterfront Park Project was completed in June 2011 and consists of a 30-acre park with walking trails, water features, plazas, public art and a pedestrian bridge. The EIR

for the 94-acre Wilmington Waterfront Project was approved by the Board in June 2009 and, project elements include a waterfront promenade, 11 acres of open green space, plazas, a 200-foot observation tower, Red Car museum, and commercial and light industrial development. The five-year total cost of the Wilmington Segment is estimated to be approximately \$67.8 million.

The San Pedro Segment is generally located along the west side of the Port's main channel from the Vincent Thomas Bridge to Cabrillo Beach. The San Pedro Segment, the Wilmington Waterfront Park Project and the Wilmington Waterfront Project are all connected along existing roadways in the West Basin area of the Port. The EIR for the San Pedro Segment was approved by the Board in September 2009. The project will transform over 400 acres of property currently operated by the Department. The San Pedro Segment involves development of a variety of land uses within the proposed project area, including, among other things, public waterfront and open space areas, expansion of cruise ship facilities, a continuous waterfront promenade that would extend throughout the proposed project area, upgrades to and expansion of retail and commercial uses, improved transportation infrastructure, and surface and structured parking to accommodate project development within the proposed project area. The five-year cost of the San Pedro Segment is estimated to be approximately \$54.1 million.

***Maritime Services Projects.*** Maritime Services Projects at the Port consist of improvements to the Department's administration building ("Harbor Administration Building") and miscellaneous projects that are not classified under the Terminal, Transportation, Security or Public Access/Environmental Enhancement initiatives currently planned at the Port. These projects include the Harbor Administration Building HVAC System replacement, Liberty Hall Plaza HVAC System Replacement and Berth 161 Marine Ways Modifications. Other projects include a \$1.7 million upgrade to control systems for the Badger Avenue Railroad Bridge, a \$3.9 million retrofit to the wharf supporting the Maritime Museum at Berth 84 and numerous other projects throughout the Port. The Department intends to use cash from operations to finance costs of the Maritime Services Projects.

## **Environmental and Regulatory Matters**

***Environmental Compliance.*** The Department was the first port in the nation to have an Environmental Management Division. The Department's Environmental Management Division provides full environmental services related to water, soils, sediments and air, land use, and biological resources affected by water, soils and sediments and air. In 2003, the Department adopted an environmental policy, which calls for continuous environmental improvement and the implementation of pollution prevention measures. The Department's Environmental Management System meets the specifications of the International Organization for Standardization Standard 14001 for environmental management systems.

The Department is required to comply with the provisions of a number of federal, State and local laws designed to protect or enhance the environment. The primary environmental assessment laws are the federal National Environmental Policy Act ("NEPA") and the California Environmental Quality Act ("CEQA"). These two laws require consideration and disclosure of environmental impacts of development projects prior to approval or the issuance of a permit. Other federal environmental laws applicable to the Port and the Department include the Resource Conservation and Recovery Act, which governs the treatment and disposal of certain substances; the Clean Water Act and the Marine Protection, Research and Sanctuary Act, which govern the dumping of dredged materials; the Rivers and Harbors Act, which governs navigable waterways; and the State and Federal Endangered Species Act. Enforcement agencies include the U.S. Environmental Protection Agency and the U.S. Army Corps of Engineers, California Regional Water Quality Control Board, California Air Resource Board, South Coast Air Quality Management District and California Department of Toxic Substances Control. The Department also is required to conform to provisions of a number of other State environmental and health safety laws.

In conforming to these laws and the implementing regulations, the Department has instituted a number of compliance programs and procedures to protect the environment, each of which are designed to, among other things, limit the Department's liabilities. In 2006, the Port and the Port of Long Beach (collectively, the "San Pedro Bay Ports") established the Clean Air Action Plan (the "CAAP"). See "-Clean Air Action Plan below." The Department's voluntary Vessel Speed Reduction Program has been in place since 2001 and has produced favorable results. The Department also has in place the Technology Advancement Program which evaluates and demonstrates new and emerging emissions treatment technologies. In 2008, the Department implemented the Clean Truck Program which essentially replaced older polluting trucks with newer clean trucks, thereby reducing truck emissions by over 90 percent at the Port and the surrounding communities. In Fiscal Year 2010, the Department adopted its Water Resources Action Plan aimed at significantly reducing water pollution discharges from land, vessels and the watershed and removing contaminated sediments. All these programs are backed up by long-term monitoring of the applicable media.

***Environmental Remediation Liability.*** In Fiscal Year 2016, the Department expended approximately \$3.6 million on environmental remediation at the Port. The Department estimates that in Fiscal Year 2017 it will spend \$10.0 million on environmental remediation at the Port, and that subsequent to Fiscal Year 2017 it will expend approximately \$65.3 million on environmental remediation at the Port. Costs associated with pollution remediation liability relate to soil and ground water contamination on sites within the Port's premises that were formerly used for industrial purposes where historical or past contamination and environmental impairments exist. The Department uses a combination of in-house specialists and outside consultants to perform estimates of potential liability.

***Environmental Documentation.*** For projects located on Port property, the Department is the lead agency under CEQA, which requires public disclosure of the environmental effects of Port development projects that are determined to not be exempt under CEQA. Under CEQA, such environmental effects are disclosed through one of several document types, depending on the level of environmental impact. Projects which are determined to have less than significant impacts are assessed through a "Negative Declaration" or an "ND". Projects which are determined to have significant impacts but which can be mitigated to avoid or reduce the environmental effects to a point where no significant effect would occur are assessed through a "Mitigated Negative Declaration" or "MND". When a project has significant and unavoidable impacts, an Environmental Impact Report or an EIR is prepared. In the last three years, the Board has certified/approved five NDs/MNDs and three EIRs prepared by the Environmental Management Division. The Environmental Management Division is currently preparing two NDs/MNDs and five EIRs. Many of these documents have been or are joint documents with federal agencies which have permitting or funding authority over all or part of the project. These disclosure documents examine the environmental effects on air, water, traffic, etc., of proposed projects, and identify feasible mitigation measures to eliminate or reduce any significant environmental effects. Generally, operational mitigation measures become the responsibility of permittees through permits with the Department. Mitigation associated with Department capital development construction are recouped through revenues generated by long-term permits with Department permittees.

***Clean Air Action Plan.*** In 2006, the Department, together with the Port of Long Beach, developed the CAAP with input from the U.S. Environmental Protection Agency, the California Air Resources Board, and the South Coast Air Quality Management District. The CAAP was updated and reauthorized in 2010. The CAAP is currently undergoing a second update, with final approval expected in late 2016. The CAAP is the Department's comprehensive plan to address air pollution emissions from Port-related sources and contains aggressive long-term goals through 2023 to reduce health risk, diesel particulate matter, and nitrogen and sulfur oxides. Pursuant to the CAAP, the Department has undertaken several programs to lower air pollution levels at the Port. Emission sources targeted by the CAAP include ships, trains, cargo handling equipment, harbor craft and heavy duty trucks. Through

implementation of the CAAP, since 2005, there has been an 85% reduction in diesel particulate matter, a 97% reduction in sulfur oxides and a 51% reduction in nitrogen oxides emissions from Port-related sources. The CAAP and its associated various measures have cost the Port and the Port's tenants approximately \$250 million to date and the CAAP will continue to require a significant investment by the Department, the Port of Long Beach and private sector businesses and will expedite the introduction of new and innovative methods of reducing emissions prior to any federal or State requirements being imposed on the San Pedro Bay Ports. In Fiscal Year 2016, fees related to the Clean Truck Program amounted to approximately \$2.4 million (unaudited). For Fiscal Year 2017, the Department has budgeted approximately \$2.3 million for fees related to the Clean Truck Program.

***Recent Developments Relating to TraPac EIR.*** Three of 52 environmental mitigation measures set forth in the TraPac Container Terminal EIR were noted in a 2015 self-audit of the Department as being delayed or not fully implemented. The Department was advised by TraPac that two of the measures will be completed in 2016 and the third measure, a road improvement project, has been funded and is in process on a timetable to be set by the City of Los Angeles Bureau of Engineering. The Department's emission inventories have shown that the throughput and actual emissions at the TraPac Terminal have been well below projections in the EIR

***Recent Developments Relating to China Shipping EIR.*** The EIR completed for the China Shipping Project (the "China Shipping EIR") includes 52 mitigation measures to reduce impacts to air quality, noise, and transportation. In 2008, at the time the Department certified the China Shipping EIR, many of the mitigation measures set forth therein had never been attempted anywhere in the world. The Department believed, at that time, that these measures, although far-reaching, were realistic and could be accomplished within a reasonable timeframe, and the majority of the mitigation measures have been or will be accomplished. The Department is currently preparing a Supplemental Environmental Impact Report (the "China Shipping SEIR") with respect to the China Shipping Project that will analyze, through the public process under CEQA, eleven of the mitigation measures set forth in the China Shipping EIR that were noted in a 2015 self-audit by the Department as being delayed or not fully implemented. The China Shipping SEIR will assess the environmental impacts of possible changes based upon the feasibility and availability of alternative technologies and other factors. The Department also is negotiating with China Shipping to amend its lease with the Department to incorporate the mitigation measures to be set forth in the China Shipping SEIR. Negotiations between the Department and China Shipping are progressing, however challenges remain because some of the mitigation measures may be infeasible due to the lack of technology, the cost of such measures and/or the operational challenges of such measures. The Department's emission inventories have shown that the throughput and actual emissions at the China Shipping Terminal had been at or below the projections set forth in the China Shipping EIR.

The Department has entered into a tolling and standstill agreement with Natural Resources Defense Council, San Pedro And Peninsula Homeowners' Coalition, San Pedro Peninsula Homeowners United, Inc. and Coalition For Clean Air, pursuant to which such parties are contending that the Department may be in violation of certain of the mitigation measures set forth in the China Shipping EIR. The Department also has received a request for a tolling agreement from the South Coast Air Quality Management District ("SCAQMD"), pursuant to which SCAQMD also is contending that the Department failed to timely implement certain of the mitigation measures set forth in the China Shipping EIR. Both agreements toll the statute of limitations for these alleged claims indefinitely, and may be terminated by any party on 60-days notice. The Department disagrees with, disputes and denies all of these claims. As of the date of this Official Statement, it is unknown whether these claims could ultimately lead to potential litigation. Any potential requested remedies are also unknown, but could include requests for injunctive relief. The Department does not currently expect any claims to involve monetary damages. The claims and any potential litigation may also be mooted out by the China Shipping SEIR.

***Transportation and Infrastructure Programs.*** The efficient movement of cargo is integral to environmentally responsible Port operations. The modern and efficient handling of cargo reduces transportation conflicts which in turn benefits traffic flow and reduces air emissions. Such programs include deepening of channels to allow the newest and largest ships to enter the harbor which minimizes the number of ships calling at the Port; development of on- and near-dock rail facilities to divert cargo from trucks to rail; construction of grade separations to separate rail from surface transportation; design of modern facilities to facilitate cargo handling; implementation of an environmental management plan to upgrade the fleet of locomotives operating within the Port and operations changes.

***Heavy Container Corridor.*** The Department created a heavy container corridor to aid in the movement of overweight 40 foot or larger ocean going containers on designated City streets in and around the Port. The City, the City of Long Beach and the State of California Department of Public Works approved a measure that allows permits to be granted for overweight container loads in the Port area.

***TraPac Settlement/Community Benefits Trust Fund.*** On December 6, 2007, the Department certified the Final Environment Impact Report (the “TraPac EIR”) in connection with the development of various improvements to Berths 136-149 in the Port, currently occupied by TraPac, including TraPac’s container terminal operations, such as a new wharf, extension of existing wharf, additional backlands, redesigned access gates, new cranes, new on-dock rail yard, new buildings and road widening. See “—Capital Improvement Planning—Capital Improvement Projects—Terminal Projects—TraPac Terminal Expansion” above for additional information on the TraPac Terminal Project. The Natural Resources Defense Council and other environmental and community groups (the “Appellants”) filed appeals on various grounds to the City Council in connection with the TraPac EIR. On April 3, 2008, the Board approved a Memorandum of Understanding (the “MOU”) with the Appellants that provides for the creation of a nonprofit organization and the Port Community Mitigation Trust Fund (the “Fund”). The Harbor Community Benefit Foundation (the “HCBF”) was established as the nonprofit organization responsible for allocating money in the Fund for projects that will protect, improve and assess public health by offsetting past, present and future off-Port impacts from Port operations. The MOU also provides that the Appellants release all claims relating to the approval of the TraPac EIR and Environmental Impact Statement, including CEQA challenges. The MOU provides that in the first year the Department will contribute \$12.04 million to the Fund for various purposes, and that amount was paid in March 2009. Additional contributions of approximately \$4 million and \$800,000 were made by the Department to the Fund in June 2010 and August 2010, respectively. On October 26, 2010, the Board approved an operating agreement with the Appellants and the HCBF (the “Operating Agreement”). Although the Operating Agreement did not expressly renew the MOU, it served to clarify many terms of the MOU, including adding an extension of time for the Department’s contributions to the Fund. The Department’s requirement to make contributions to the Fund was extended for projects that are certified prior to May 19, 2016. The MOU term remains in effect for such additional contributions as well as the payment of all funds deposited into the Fund, however there is no funding obligation for projects certified after May 19, 2016. Contributions from the Department to the Fund over the remaining MOU term will vary based on which projects proceed and the level of cargo throughput at the Port.

***Alternative Maritime Power.*** The Department has actively advanced the use of Alternative Maritime Power at its facilities, which is a specialized air quality program that focuses on reducing emissions from container vessels docked at the Port. Instead of running on diesel power while at berth, AMP-equipped ships connect to shore side electrical power. AMP technology is often referred to as “cold ironing” and has been used for naval vessels, Baltic ferries and cruise ships operating in Alaska. The Port was the first port in the world to use AMP technology for in-service container ships.

In June 2004, the Department and China Shipping Container Line opened the West Basin Container Terminal at Berth 100, the first container terminal in the world to use AMP. The Department continues to encourage use of AMP technology as a means of improving air quality. As of July 1, 2016, 24 berths at the Port had AMP capabilities. Depending on the size of the ship, estimates are that AMP will reduce NOx by one ton and take more than half a ton of SOx out of the air each day the ship is at berth and plugged in.

**Regulation.** The operations of the Department and the Port are regulated by various agencies. The Department believes that it is currently in substantial compliance with the regulations of all such regulatory bodies.

### **Stevedoring and Cargo Handling**

Arranging for cargo handling services is the responsibility of each shipping line. Cargo handling at the Port is provided pursuant to a contract between the Pacific Maritime Association (the “Association”) and the International Longshore and Warehouse Union (“ILWU”). The Association represents most of the steamship lines, marine terminal operators, car loading bureaus and cargo companies on the Pacific Coast. Most ILWU employees work under contract with the Association. The current contract between the Association and the ILWU was entered into on May 21, 2015 and was ratified by the ILWU membership on May 22, 2015, retroactive to July 1, 2014. The current contract expires on June 30, 2019.

The previous contract between the Association and ILWU expired on June 30, 2014. The Association and the ILWU began negotiating a new contract in May 2014, but did not agree on a new contract until February 2015. The protracted negotiations had a compounding effect on congestion issues that had slowed down container cargo movement through the San Pedro Bay Ports since September 2014. The Department’s revenues and container volumes at the Port were temporarily impacted during Fiscal Year 2015 as a result of the slowdown and other congestion factors, but full Fiscal Year revenues were not materially affected and container volumes decreased only slightly (0.23%).

Since 2002, there have been two other periods of prolonged labor unrest which led to an interruption of the normal course of business at the Port. In October 2002, after the Association and the ILWU failed to negotiate a new contract, the shipping lines instituted a lock out of the stevedoring companies, thereby shutting down all West Coast ports, including the Port, for ten days. Work resumed when then-President Bush ordered the ports to reopen pursuant to the Taft Hartley Act. Additionally, in November 2012, after the Harbor Employers Association (“HEA”) and ILWU Marine Clerks Association Local 63 Office Clerical Unit (“ILWU 63”) failed to negotiate a new contract, the approximately 600 clerical workers represented by ILWU 63 walked off the job. Although only about 450 clerical workers throughout both the Port and the Port of Long Beach participated in the strike, thousands of workers represented by a sister union refused to cross the picket lines. As a result, 10 out of the 14 terminals at the San Pedro Ports were shut down for eight days. Work resumed when the HEA and ILWU 63 reached a tentative agreement whereby ILWU 63 members received modest increases in wage and pension benefits, and the HEA promised to outsource no more than 14 jobs over a four-year period.

Other than the periods of unrest which occurred in 2002, 2012, 2014 and 2015, there has generally been a history of cooperative working relationships between the ILWU and the employer groups represented by the Association and HEA. The Department understands that the risk of a work slowdown is the greatest as negotiations get closer to the end of the current contract and until a new agreement is reached. Prolonged work slowdowns or stoppages, if they occur, could adversely affect Department revenues. See “CERTAIN INVESTMENT CONSIDERATIONS—Port Competition” herein.

## **San Pedro Bay Port's Cooperative Working Agreement**

On February 27, 2015, the U.S. Federal Maritime Commission approved an amendment to a cooperative working agreement previously entered into by the Department and the Port of Long Beach. The amendment allows the two ports to discuss and agree on projects and programs that address congestion issues (including, establishing initiatives to increase terminal productivity, facilitate chassis availability and usage, and improve drayage truck turn times), transportation infrastructure needs and the reduction of pollution caused by port-related activities.

On April 23, 2015, the Department and the Port of Long Beach hosted a meeting of supply chain stakeholders to gather input, insights and solutions focused on improving the performance of the supply chain. On May 27, 2015, the Department and the Port of Long Beach announced the creation of issue-specific working groups focusing on peak operations and terminal optimization to develop ways to strengthen the competitiveness of the San Pedro Bay Ports. Since the initial meeting of stakeholders and creation of issue-specific working groups, the San Pedro Bay Ports have continued to coordinate further dialogue among its stakeholders as part of its efforts to reduce congestion and further improve supply chain efficiency throughout the Port complex.

### **FINANCIAL INFORMATION CONCERNING THE DEPARTMENT**

#### **General**

The Department has three major sources of revenue: shipping revenue, a function of cargo throughput; revenue from the rental of the Port's land and buildings (i.e., revenue from permit and lease agreements); and the smallest revenue component, fee and royalty revenue. The Department's primary expenses include salaries and benefits, outside and professional services and payments for services rendered by the City to the Department. In recent years, the Department's operating expenses have increased due to increased expenditures for salaries and expenditures, outside services, Port security and environmental initiatives.

With East Asia being the primary trade origin and destination of the ships of the terminal operators at the Port, these growing economies have historically provided the Department with a level of steady growth in its shipping revenues. Even so, the Department has included minimum guarantee provisions in all major permit agreements and seeks the extra security of letter of credit collateralization from certain occupants. Permit agreement income is derived from approximately 290 separate permit and lease agreements, and provides further stabilization of the Department's revenue stream. See "THE PORT AND THE DEPARTMENT—Operating Data—Rental Property" herein.

#### **Summary of Revenues, Expenses and Net Assets**

The following Table 9 sets forth a breakdown of the Department's operating revenues, expenses and net assets for Fiscal Years 2012 through 2016 (unaudited).

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**Table 9**  
**Port of Los Angeles**  
**Summary of Revenues, Expenses and Net Assets**  
**(In Thousands of Dollars)**

|   | 2012               | 2013                    | 2014               | 2015                    | Unaudited<br>2016 |
|---|--------------------|-------------------------|--------------------|-------------------------|-------------------|
| Revenues  |                    |                         |                    |                         |                   |
| Shipping Services   |                    |                         |                    |                         |                   |
| Wharfage  | \$ 333,757         | \$ 322,821              | \$ 350,928         | \$ 336,997              |                   |
| Dockage   | 4,813              | 4,689                   | 4,930              | 6,097                   |                   |
| Demurrage   | 230                | 228                     | 223                | 329                     |                   |
| Pilotage  | 7,131              | 6,954                   | 7,540              | 7,110                   |                   |
| Assignment Charges  | <u>11,785</u>      | <u>13,184</u>           | <u>13,592</u>      | <u>14,365</u>           |                   |
| Total Shipping Services   | \$ 357,716         | \$ 347,876              | \$ 377,213         | \$ 364,899              |                   |
| Rentals   |                    |                         |                    |                         |                   |
| Land  | \$ 40,127          | \$ 38,856               | \$ 38,819          | \$45,255                |                   |
| Other   | <u>3,016</u>       | <u>4,034</u>            | <u>1,966</u>       | <u>979</u>              |                   |
| Total Rentals   | 43,143             | 42,890                  | 40,156             | 46,233                  |                   |
| Royalties, Fees and Other Operating Revenues                        | <u>8,928</u>       | <u>6,602</u>            | <u>8,582</u>       | <u>35,763</u>           |                   |
| Total Operating Revenues  | \$ 409,787         | \$ 397,368 <sup>1</sup> | \$ 425,951         | \$ 446,895              |                   |
| Expenses  |                    |                         |                    |                         |                   |
| Operating and Administrative Expenses                               |                    |                         |                    |                         |                   |
| Salaries and Benefits   | \$ 98,614          | \$ 101,861              | \$ 93,668          | \$ 92,786               |                   |
| Pension Expense Adjustment <sup>(2)</sup>                           | -                  | -                       | 18,385             | 19,002 <sup>2</sup>     |                   |
| City Services and Payments  | 32,014             | 31,074                  | 33,633             | 34,749                  |                   |
| Outside Services  | 27,660             | 29,690                  | 26,331             | 28,983                  |                   |
| Utilities   | 6,653              | 5,726                   | 12,335             | 19,373                  |                   |
| Materials and Supplies  | 6,314              | 5,989                   | 6,883              | 6,257                   |                   |
| Pollution Remediation Expenses                                      | 11,635             | 11,635                  | 1,268              | (211)                   |                   |
| Marketing and Public Relations                                      | 3,177              | 2,877                   | 2,711              | 2,771                   |                   |
| Workers' Compensation, Claims and Settlement                        | 7,507              | 3,550                   | 1,959              | 2,503                   |                   |
| Clean Truck Program Expenses  | 790                | 934                     | 1,100              | 949                     |                   |
| Travel and Entertainment  | 932                | 1,139                   | 548                | 512                     |                   |
| Other Operating Expenses  | <u>4,511</u>       | <u>10,694</u>           | <u>6,533</u>       | <u>26,574</u>           |                   |
| Total Operating and Administrative Expenses                         | \$ 199,806         | \$ 205,169              | \$ 205,354         | \$ 234,249              |                   |
| Income from Operations before Depreciation                          | 209,981            | 192,199                 | 220,597            | 212,646                 |                   |
| Depreciation  | <u>100,485</u>     | <u>108,037</u>          | <u>124,221</u>     | <u>137,384</u>          |                   |
| Operating Income  | \$ 109,496         | \$ 84,162               | \$ 96,376          | \$ 75,262               |                   |
| Nonoperating Revenues/(Expenses)                                    |                    |                         |                    |                         |                   |
| Income from Investments in JPAs and Other Entities                  | \$ 1,851           | \$ 2,049                | \$ 2,129           | \$ 2,811                |                   |
| Interest and Investment Income                                      | 9,486              | 826                     | 4,654              | 5,039                   |                   |
| Interest Expense  | (10,538)           | (2,473)                 | (1,530)            | (330)                   |                   |
| Other Income and Expenses, net                                      | <u>(8,359)</u>     | <u>784</u>              | <u>(27,364)</u>    | <u>(2,226)</u>          |                   |
| Net Nonoperating Revenues/(Expenses)                                | (7,560)            | 1,186                   | (22,111)           | 5,293                   |                   |
| Income Before Capital Contributions                                 | \$ 101,936         | \$ 85,348               | \$ 74,265          | \$ 80,555               |                   |
| Capital Contributions   | 31,307             | 17,630                  | 80,374             | 111,852                 |                   |
| Special Item  | -                  | 13,387                  | 15,002             | -                       |                   |
| Changes in Net Assets   | 133,243            | 116,365                 | 169,640            | 192,407                 |                   |
| Total Net Assets – Beginning of Year                                | <u>2,642,885</u>   | <u>2,776,128</u>        | <u>2,884,351</u>   | <u>3,064,554</u>        |                   |
| Net Adjustment for Prior Year Amortization of Bond Premium/Discount | -                  | -                       | 10,562             | -                       |                   |
| Net Adjustment for Prior Year Pension Expense                       | -                  | -                       | -                  | (194,062) <sup>37</sup> |                   |
| Net Adjustment for Write-Off of Prior Period Bond Costs             | -                  | (8,142)                 | -                  | -                       |                   |
| Total Net Assets – End of Year                                      | <u>\$2,776,128</u> | <u>\$2,884,351</u>      | <u>\$3,064,554</u> | <u>\$3,062,899</u>      |                   |

<sup>1</sup> In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach and initially it impacted both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years" herein.

<sup>2</sup> Pension expenses incurred in fiscal years ended June 30, 2014 and 2015 have been reported separately from "Salaries and Benefits" expense as a result of the implementation of Governmental Accounting Standards Board ("GASB") "Statement No. 68, Accounting and Financial Reporting for Pension" ("GASB 68") and GASB "Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measure Date" ("GASB 71"). Pension expenses incurred in fiscal years ended June 30, 2012 through 2013 have been reported within "Salaries and Benefits" expense.

<sup>3</sup> One-time adjustment required by GASB Statement No.68. Prior to GASB 68, all pension payments made by the Department on behalf of current employees were charged to employee benefits expense in the fiscal year in which the pension payment occurred. Any Department pension plan contributions made after Fiscal Year 2014 must be reflected as a "Deferred Outflows of Resources" rather than being expensed. As a result of implementing GASB 68, salary and benefits expenses for Fiscal Year 2015 were reduce by \$23.5 million.

Source: Harbor Department of the City of Los Angeles

**Management Discussion and Analysis Fiscal Years 2015 and 2016.** In Fiscal Year 2016, total cargo volumes were relatively flat compared to Fiscal Year 2015. The Port handled approximately 8.391 million TEUs in Fiscal Year 2016 as compared to approximately 8.191 million TEUs in Fiscal Year 2015. Total operating revenues were approximately \$441.2 million (unaudited) in Fiscal Year 2016, a decrease of approximately \$5.6 million, or 1.3%, over Fiscal Year 2015. The decrease in operating revenues was due to the recording of one-time payments in the prior fiscal year as well as lower utility reimbursements and lower space assignment revenues in the current fiscal year. Total operating and administrative expenses for Fiscal Year 2016 were approximately \$[\_\_\_\_\_] million (unaudited), a decrease of approximately [6.7]% over the same period in Fiscal Year 2015. Despite higher utility expenses and incentive payouts to customers, Fiscal Year 2016 total operating and administrative expenses declined relative to Fiscal Year 2015 primarily as a result of lower headcount (including several high-paying positions that were vacant in Fiscal Year 2016 and not filled) and a one-time pension-related accounting adjustment which reduced Fiscal Year 2016 salaries and benefits expenses. Overall, operating income, before depreciation, for Fiscal Year 2016 increased to approximately \$[\_\_\_\_\_] million (unaudited), an increase of approximately [15.7]% from Fiscal Year 2015.

**Tariffs.** Shipping revenues are comprised of wharfage, dockage, demurrage, cranes, pilotage, assignment charges, and storage, which the Department sets through tariff charges. The Department's tariffs are competitive with those charged by other West Coast ports. The following Table 10 provides a history of the Department's general cargo tariffs and basic dockage charges for Fiscal Years 2007 through 2016.

**Table 10  
Port of Los Angeles  
General Cargo Tariffs and  
Basic Dockage Charges**

| <b>Fiscal Year<br/>Ended<br/>June 30</b> | <b>General<br/>Cargo<br/>Tariff<sup>1</sup></b> | <b>Basic<br/>Dockage<br/>Charge<sup>2</sup></b> |
|--|---|---|
| 2007                                     | \$6.25  | \$2,465   |
| 2008                                     | 6.25  | 2,465   |
| 2009                                     | 6.25  | 2,465   |
| 2010                                     | 6.25  | 2,465   |
| 2011                                     | 6.25  | 2,465   |
| 2012                                     | 6.25  | 2,465   |
| 2013                                     | 6.25  | 2,465   |
| 2014                                     | 6.25  | 2,465   |
| 2015                                     | 6.25  | 2,465   |
| 2016                                     | 6.25  | 2,465   |

<sup>1</sup> Per metric ton or cubic meter of cargo.

<sup>2</sup> Per overall length of vessel between 180 and 195 meters.

Source: Harbor Department of the City of Los Angeles

**Shipping Industry and Recovery from Economic Downturn in Past Years.** The revenues of the Department depend to a large extent on shipping activity. The shipping industry as a whole and the level of shipping traffic activity at the Port specifically are dependent upon a variety of factors, including: (a) local, regional, national and international economic and trade conditions; (b) international political conditions and hostilities; (c) cargo security concerns; (d) shipping industry economics, including the cost and availability of labor, fuel, vessels, containers and insurance; (e) competition among shipping

companies and ports, including with respect to timing, routes and pricing; (f) governmental regulation, including security regulations and taxes imposed on ships and cargo, as well as maintenance and environmental requirements; and (g) demand for shipments.

In 2008 and 2009, the global economic downturn resulted in a significant drop in local trade. This was exemplified by an approximate 14.1% decrease in the Port's container volume in Fiscal Year 2009 as compared to Fiscal Year 2008 and an approximate 7.1% decrease in the Port's container volume in Fiscal Year 2008 as compared to Fiscal Year 2007. Terminal operators and ocean carriers were looking aggressively at all aspects of their businesses for cost savings to mitigate dropping revenue levels. In order to maintain market share and to attract additional discretionary market share, various port operators, including the Department, provided certain financial incentives to the customers who make port and rail routing decisions. Such incentive programs vary between ports and are often temporary except for the Port's empty container incentive and transshipping incentive which are continuously in effect until rescinded by the Board.

Starting in 2010, economy and trade showed signs of recovery and the Port started to regain its lost container volume. In Fiscal Year 2011, the Port experienced a 9.81% increase in container volume as compared to Fiscal Year 2010. In Fiscal Year 2012, the Port experienced a 3.13% increase in container volume as compared to Fiscal Year 2011.

In Fiscal Year 2013, container volume and associated revenue dropped primarily due to the transfer of a service route known as Transpacific 8, jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM to the Port of Long Beach. While such transfer provided financial benefit for Mediterranean Shipping Co. and CMA CGM, it initially impacted both cargo volume and associated revenue at the Port. The Department competed to regain the lost cargo volume by offering cargo incentives in calendar year 2014. See “-Incentive Programs” below.

In Fiscal Year 2014, the Port experienced a 5.6% increase in container volume as compared to Fiscal Year 2013. Additionally, with the formation of the G6 Alliance (See “CERTAIN INVESTMENT CONSIDERATIONS—Alliances and Consolidation of Container-Shipping Industry” herein for a description of the G6 Alliance), the Port gained a portion of their transpacific volume via the San Pedro Bay since five of the six container-shipping lines that are part of the G6 Alliance operate at the Port.

In Fiscal Year 2015, as a result of the protracted negotiations between the Association and the ILWU and certain other congestion issues, container cargo movements through the Port were temporarily affected beginning in September 2014. However, full-Fiscal Year revenues were not materially affected and container volumes decreased only slightly (0.23%). See “THE PORT AND THE DEPARTMENT—Stevedoring and Cargo Handling” and “—San Pedro Bay Port's Cooperative Working Agreement.”

[Fiscal Year 2016 Update?]

The Department expects that as a result of the ongoing capital projects at many of the Port's terminals, cargo volumes should increase in the future and the Port should be able to offer expanded service offerings. For example, the Trapac Container Terminal Automation Project, expected to be completed in 2017, is expected to generate operating efficiencies that will increase the amount of space for container storage, and may ultimately lead to additional container volumes being processed through the terminal. Furthermore, the YTI Container Terminal Redevelopment Project is underway, and once completed in 2017 (expected), the terminal will be able to accept larger vessels which may lead to additional volume through that facility. See “THE PORT AND THE DEPARTMENT—Capital Improvement Planning—Capital Improvement Projects—Terminal Projects”.

***Incentive Programs.*** In Fiscal Year 2014, the Board approved a limited duration incentive program, the Ocean Common Carrier Incentive Program, to incentivize shipping lines that brought new container business to the Port during calendar year 2014 as compared to the previous calendar year. For every incremental TEU that a shipping line moved through the Port in calendar year 2014 (as compared to the TEUs moved through the Port in calendar year 2013), the Department paid out to shippers \$5 (for up to and including 99,999 incremental TEUs) or \$15 (for up to and including 100,000 or more incremental TEUs). The Department paid approximately \$10.5 million to shipping companies that took advantage of the Ocean Common Carrier Incentive Program, which payments were made by the Department in Fiscal Year 2015. The Ocean Common Carrier Incentive Program expired on December 31, 2014, and the Department has no current plans to reauthorize the program.

Additionally, the Department funds a series of programs that encourages Port tenants to conduct their operations in a more environmentally friendly manner. For example, under the Vessel Speed Reduction Incentive Program, in an effort to reduce air pollution, the Department incentivizes vessel operators who berth their ships at the Port to reduce their vessel speed when they are within a certain distance of the Port. In Fiscal Years 2015 and 2016, the Department expended approximately \$1.4 and \$2.0 million, respectively, to fund the Vessel Speed Reduction Incentive Program. The Department has budgeted approximately \$1.6 million to fund the Vessel Speed Reduction Incentive Program in Fiscal Year 2017. Another program the Department funds is the Technology Advancement Program, which seeks to accelerate the verification or commercial availability of new, clean technologies, through evaluation and demonstration, to move towards an emission free port. In Fiscal Years 2015 and 2016, the Department expended approximately \$1.0 million and \$192,500, respectively, to fund the Technology Advancement Program. The Port has budgeted approximately \$800,000 in Fiscal Year 2017 to fund the Technology Advancement Program. Additionally, under the Marina Engine Exchange Program, and in an effort to improve air and water quality at San Pedro Bay, the Department incentivizes boat owners to replace older, high polluting motors with low emission rated motors. In Fiscal Years 2015 and 2016, the Department expended approximately \$39,800 and \$49,300, respectively, to fund the Marina Engine Exchange Program. The Department has budgeted approximately \$50,000 to fund the Marina Engine Exchange Program in Fiscal Year 2017.

For Fiscal Year 2015, the Department expended approximately \$10.5 million in total customer incentives and approximately \$2.7 million in total environmental incentives. For Fiscal Year 2016, the Department incurred no expenditures for customer incentives and approximately \$2.8 million in total environmental incentives. For Fiscal Year 2017, the Department has budgeted \$2.8 million in total environment incentives, but has not budgeted any moneys for total customer incentives.

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**Debt Service Coverage.** The operating revenues, operating expenses (including payments to the City for services), revenues available to pay debt service (excluding amortization, depreciation and interest expense), debt service and debt service coverage ratios for Fiscal Years 2011 through 2016 (unaudited) are shown in the following Table 11.

**Table 11**  
**Port of Los Angeles**  
**Debt Service Coverage**  
**(In Thousands of Dollars)**

| <b>Fiscal Year<br/>Ended<br/>June 30</b> | <b>Operating<br/>Revenues<sup>1</sup></b> | <b>Operating<br/>Expenses<sup>2</sup></b> | <b>Available<br/>Revenues</b> | <b>Debt<br/>Service<sup>3</sup></b> | <b>Debt Service<br/>Coverage<sup>4</sup></b> |
|--|---|---|-------------------------------|-------------------------------------|--|
| 2011                                     | \$412,962                                 | \$209,695                                 | \$203,267                     | \$72,927                            | 2.8x   |
| 2012                                     | 435,291                                   | 199,806                                   | 235,485                       | 71,609                              | 3.3  |
| 2013                                     | 416,974 <sup>5</sup>                      | 205,169                                   | 211,805                       | 72,401                              | 2.9  |
| 2014                                     | 446,910                                   | 205,354                                   | 241,556                       | 65,488                              | 3.7  |
| 2015                                     | 460,364                                   | 234,249                                   | 226,115                       | 69,988                              | 3.2  |
| 2016 <sup>6</sup>                        | 453,632                                   | 233,097                                   | 220,534                       | 91,831                              | 2.4  |

<sup>1</sup> Operating Revenues also include income from investments, and interest and other non-operating revenues.

<sup>2</sup> Operating Expenses include payroll, fringe benefits and payments for City services.

<sup>3</sup> Debt Service includes only the principal and interest payments on Parity Obligations. Fiscal year 2016 Debt Service includes \$7.4 million related to the early redemption of Series 2005C-1 Bonds. Absent this redemption, fiscal year 2016 Debt Service would have been \$84.4 million. The Department has no subordinate debt outstanding.

<sup>4</sup> Available Revenues divided by Debt Service.

<sup>5</sup> In October 2012, Transpacific 8, a service route jointly operated by Mediterranean Shipping Co., Maersk Line and CMA CGM, transferred from the Port to the Port of Long Beach and initially it impacted both cargo volume and associated revenue at the Port. The Port has since recovered from the initial impact through ongoing capital investment to enhance capacity and recent favorable movement of alliance traffic. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Summary of Revenues, Expenses and Net Assets—Shipping Industry and Recovery from Economic Downturn in Past Years" herein.

<sup>6</sup> Unaudited. Fiscal year 2016 Debt Service includes \$7.4 million related to the early redemption of Series 2005C-1 Bonds. Absent this redemption, fiscal year 2016 Debt Service would have \$84.4 million.

Source: Harbor Department of the City of Los Angeles

### **Fiscal Year 2017 Budget**

The Adopted 2017 Budget represents a fiscal plan with resources dedicated to the Department's primary goals of maintaining its competitive edge while enhancing job creation and economic development for the local and surrounding communities and growing Port business in a sustainable and fiscally responsible manner. Accomplishing these goals comes with fiscal challenges, given a recovering economy, port competition and a changing shipping paradigm that includes an increase in alliances among shippers that have the potential to change cargo flows and increasing levels of terminal automation. The Adopted 2017 Budget was formulated based on certain financial metrics in line with the Department's Financial Policies (described below), in particular, to ensure a minimum level of debt service coverage and a minimum level of cash reserves, as well as a separately established key financial metric of a minimum operating margin of 45% (calculated as the operating income before depreciation divided by total operating revenues).

The Adopted 2017 Budget is comprised of three primary components, which includes \$452.8 million in operating revenues, \$249.0 million in operating expenses and \$210.3 million in capital expenditures. Budgeted operating revenues and expenses for Fiscal Year 2017 have each increased by approximately [5]% as compared to the average for the previous four Fiscal Years. The Adopted 2017

Budget includes a [2.4]% growth in operating revenues as compared to the budget for Fiscal Year 2016, driven primarily by expected growth in cargo volumes. The Adopted 2017 budget also includes a [1.8]% reduction in total operating expenses as compared to the budget for Fiscal Year 2016, due in part to the expiration of the Ocean Common Carrier Incentive Program (which expired on December 31, 2014), and the continuation of efforts to control spending. The Fiscal Year 2017 capital budget, has decreased by approximately [26]% as compared to the average of the previous four Fiscal Years, primarily due to the completion of major transportation projects such as the South Wilimington Grade Separation and the Berth 200 Rail Yard.

For planning purposes the Department has developed and uses financial projections based on assumptions the Department believes to be conservative as one of its management tools. This allows the Department to see the potential effects of changes in revenues and expenses on its cash position and debt capacity.

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## Other Financial Matters

*Debt Service on the Parity Obligations.* Debt service on the Series 2016 Bonds and the other Parity Obligations (excluding the Refunded Bonds) is shown in the following Table 12.

**Table 12**  
**Port of Los Angeles**  
**Debt Service on Parity Obligations<sup>1</sup>**

| Fiscal<br>Year<br>Ended<br>June 30 | Series 2016A<br>Bonds<br>Principal | Series 2016A<br>Bonds<br>Interest | Series 2016B<br>Bonds<br>Principal | Series 2016B<br>Bonds<br>Interest | Series 2016C<br>Bonds<br>Principal | Series 2016C<br>Bonds<br>Interest | Total Debt Service<br>Requirements for<br>Series 2016<br>Bonds | Total Debt Service<br>Requirements<br>on Other<br>Parity Obligations | Total Debt Service<br>Requirements |
|------------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|--|--|------------------------------------|
| 2017                               |                                    |                                   |                                    |                                   |                                    |                                   |  | \$88,289,388   |                                    |
| 2018                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 81,491,063   |                                    |
| 2019                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 89,159,213   |                                    |
| 2020                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 88,671,838   |                                    |
| 2021                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 89,116,438   |                                    |
| 2022                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 88,612,919   |                                    |
| 2023                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 88,047,763   |                                    |
| 2024                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 88,037,769   |                                    |
| 2025                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 88,787,688   |                                    |
| 2026                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 88,226,981   |                                    |
| 2027                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 75,588,250   |                                    |
| 2028                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,852,875   |                                    |
| 2029                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,934,750   |                                    |
| 2030                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,830,900   |                                    |
| 2031                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,707,850   |                                    |
| 2032                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,693,288   |                                    |
| 2033                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,784,794   |                                    |
| 2034                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,774,338   |                                    |
| 2035                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,765,831   |                                    |
| 2036                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,751,088   |                                    |
| 2037                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 36,740,175   |                                    |
| 2038                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 30,121,025   |                                    |
| 2039                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 30,110,056   |                                    |
| 2040                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 30,095,819   |                                    |
| 2041                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 17,309,375   |                                    |
| 2042                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 17,315,250   |                                    |
| 2043                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 17,314,625   |                                    |
| 2044                               |                                    |                                   |                                    |                                   |                                    |                                   |  | 17,310,875   |                                    |
| 2045                               |                                    |                                   |                                    |                                   |                                    |                                   |  | <u>\$17,307,125</u>  |                                    |
| Total                              |                                    |                                   |                                    |                                   |                                    |                                   |  | <u>\$1,498,749,344</u>   |                                    |

<sup>1</sup> Total debt service on the Series 2016 Bonds and the other Parity Obligations (excluding the Refunded Bonds). As of the date of this Official Statement, the Department did not have any Commercial Paper Notes outstanding. Numbers may not total due to rounding to nearest dollar.  
Source: Harbor Department of the City of Los Angeles

*Financial Transactions with the City of Los Angeles.* The Department is a self-supporting, revenue-producing enterprise fund of the City. Revenues, expenditures, assets and liabilities of the Department are accounted for on a separate basis from other funds of the City and maintained in trust for the people of the State pursuant to the tidelands grants. See “THE PORT AND THE DEPARTMENT—Introduction and Organization—Tidelands Trust Properties.”

The Department makes annual payments to the City for services rendered by the City on behalf of the Department (“City Services”). Estimated payments are included in the Department’s annual budget. For Fiscal Year 2015, City Services payments totaled approximately \$34.8 million. For Fiscal Year 2016, City Services payments totaled approximately \$[\_\_\_\_\_]. For Fiscal Year 2017, the Department has budgeted approximately \$[\_\_\_] million for City Services payments. Pursuant to a Settlement Agreement entered into by the City and the Department in 1997 (the “1997 Settlement Agreement”), the City and the Department established a methodology for billing for City Services. In settlement of certain disputes arising under the 1997 Settlement Agreement, the City agreed to reimburse the Department approximately \$61.8 million plus 3% interest by crediting the Department’s annual City Services payment. The annual credit is applied against amounts owed to the City by the Department for City Services. The annual credit is \$5,127,397 and runs through Fiscal Year 2016. See Note 15(a) of the Audited Financial Statements of the Department attached hereto as “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014”.

***Alameda Corridor.*** The Alameda Corridor Transportation Authority (“ACTA”) is a joint exercise of powers authority created by the City and the City of Long Beach, pursuant to the Joint Exercise of Powers Act, State Government Code Section 6500 and following (as it may be amended and supplemented), and organized under an Amended and Restated Joint Exercise of Powers Agreement, dated as of December 18, 1996, as amended, between the City and the City of Long Beach, for the purpose of establishing a comprehensive transportation corridor and related facilities consisting of street and railroad rights-of-way and an improved highway and railroad network along Alameda Street between the Santa Monica Freeway and the Ports in San Pedro Bay, linking the San Pedro Bay Ports to the main east-west rail line in the central Los Angeles area. The Alameda Corridor began operating on April 15, 2002. ACTA is governed by a seven-member board which is comprised of two members from each of the San Pedro Bay Ports, one each from the City and the City of Long Beach and one from the Los Angeles County Metropolitan Transportation Authority. In the future, ACTA may make payments to or require Shortfall Advances (as defined herein) from the San Pedro Bay Ports; any such payments or Shortfall Advances will be shared equally. As of June 30, 2015, ACTA had outstanding approximately \$[2.1] billion aggregate principal of and accrued interest on taxable and tax-exempt bonds (collectively, the “ACTA Obligations”). [As of June 30, 2016, the Department has no share of ACTA’s assets and income.] See Note 16C of the Audited Financial Statements of the Department attached hereto as “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014.”

In October 1998, the San Pedro Bay Ports, ACTA, the Union Pacific, and BNSF (“BNSF” and together with Union Pacific, the “Railroads”) entered into the Alameda Corridor Use and Operating Agreement, as amended (the “Corridor Agreement”). The Corridor Agreement governs the administration, operation and maintenance of the Alameda Corridor and the collection and application of use fees, container charges, maintenance and operation charges and Shortfall Advances. The ACTA Obligations are payable from the use fees and container charges, payable by the Railroads, and from Shortfall Advances.

The Corridor Agreement requires the San Pedro Bay Ports, severally and not jointly, to make payments (the “Shortfall Advances”) in the event the amount of use fees and container charges collected from the Railroads are not sufficient to make the debt service payments on the ACTA Obligations. Pursuant to the Corridor Agreement, the San Pedro Bay Ports are each obligated to make up one-half of any deficiency in the payment of debt service on the ACTA Obligations. However, the San Pedro Bay Ports are liable only for a maximum of 40% (20% each) of the total amount of debt service due in each year on the ACTA Obligations. Additionally, each of San Pedro Bay Ports is not required to make

Shortfall Advances that should have been paid by the other party. Based upon the June 30, 2016 outstanding amount of the ACTA Obligations, the San Pedro Bay Ports are potentially liable for a maximum of approximately \$[1.5] billion (the Department and the Port of Long Beach each being liable for approximately \$[750] million) of debt service payments on the ACTA Obligations through 2037. Pursuant to the Corridor Agreement, the Department is obligated to include any forecasted Shortfall Advances in its budget for each fiscal year. The San Pedro Bay Ports were first required to pay Shortfall Advances in calendar year 2011 when they paid a total of \$5.9 million (\$2.95 million each) for debt service payments due on October 1, 2011. The San Pedro Bay Ports were again required to pay Shortfall Advances in calendar year 2012 when they paid a total of \$5.9 million (\$2.95 million each) for debt service payments due on October 1, 2012. [The San Pedro Bay Ports were not required to pay Shortfall Advances in 2013, 2014 and 2015 and do not expect to pay Shortfall Advances in 2016]. The Department expects that it (and the Port of Long Beach) may be required to make one or more additional Shortfall Advances between 2016 and 2037, however, as of the date of this Official Statement, the Department cannot predict either the amount or timing of any such Shortfall Advances. ACTA recently informed the Department that it is considering several scenarios to restructure part of its outstanding debt.

In connection with ACTA's issuance of \$83,710,000 of refunding bonds in 2012 (the "Series 2012 ACTA Bonds"), the Department and the Port of Long Beach entered into a debt service reserve surety agreement (the "Series 2012 ACTA Surety Agreement"). Pursuant to the Series 2012 ACTA Surety Agreement, the Department and the Port of Long Beach each agreed to make individual payments of up to \$3.6 million (the "Surety Obligation Payments") to pay the principal of and interest on the Series 2012 ACTA Bonds in the event the amount of use fees and container charges collected from the Railroads are not sufficient to make the debt service payments on the Series 2012 ACTA Bonds. The Department's (and the Port of Long Beach's) obligation under the Series 2012 Surety Agreement will decrease as deposits, if any, are made to the debt service reserve fund established for the Series 2012 ACTA Bonds. Since the execution of the Series 2012 ACTA Surety Agreement, ACTA has made cash deposits of approximately \$2.1 million to the debt service reserve fund for the Series 2012 ACTA Bonds, thereby reducing the Surety Obligation Payments to a maximum of approximately \$2.5 million each for the Department and the Port of Long Beach. The Department's (and the Port of Long Beach's) obligation under the Series 2012 Surety Agreement to make the Surety Obligation Payments will decrease further to the extent that deposits, if any, are made to the debt service reserve fund for the Series 2012 ACTA Bonds. According to ACTA, deposits are scheduled to be made to the debt service reserve fund for the Series 2012 ACTA Bonds each October 1 in an amount of approximately \$1 million, so that the debt service reserve fund for the Series 2012 ACTA Bonds will be fully funded by October 1, 2019.

In May 2016 ACTA restructured its Series 2004 A Bonds. By extending the payment of principal that would have matured in fiscal years 2017 through 2026 into a later period, projected shortfall advance payments by the Department and the Port of Long Beach in those years was eliminated. Although this restructuring increased the overall amount of the debt service on the outstanding ACTA bonds overall, it generated significant relief from projected shortfall payments for the two ports through fiscal year 2026.

The Department's obligation to make Shortfall Advance payments and Surety Obligation Payments is subordinated to other obligations of the Department, including the Series 2016 Bonds, and the Department is not required to take Shortfall Advance payments or Surety Obligation Payments into account when determining whether it may incur additional indebtedness or when calculating compliance with rate covenants under their respective bond indentures and resolutions. The Department's obligation to make Shortfall Advances and Surety Obligation Payments is to continue even though use fees may be abated as a result of complete blockage of the rail corridor for more than five days. Shortfall Advances and Surety Obligation Payments are to be reimbursed to the Department and the Port of Long Beach from use fees and container charges to the extent available, after payment of debt service on the ACTA Obligations, the funding of any reserves associated with the ACTA Obligations, the payment of

maintenance and operating expenses of the Alameda Corridor, and the payment of administrative and other amounts.

**Historical Cash Balances.** The following Table 13 sets forth the ending cash balances in the Harbor Revenue Fund and the Department's unrestricted and restricted funds for Fiscal Years 2012 through 2016 (unaudited).

**Table 13**  
**Port of Los Angeles**  
**Historical Ending Cash Balances**  
**(in thousands of dollars)**

|   | <u>2012</u>      | <u>2013</u>           | <u>2014</u>            | <u>2015</u>            | <u>Unaudited<br/>2016</u> |
|---|------------------|-----------------------|------------------------|------------------------|---------------------------|
| <b>Unrestricted Funds</b>                   |                  |                       |                        |                        |                           |
| Harbor Revenue Fund                         | \$182,253        | \$99,095 <sup>1</sup> | \$ 53,774 <sup>2</sup> | \$230,429 <sup>3</sup> | \$221,920                 |
| Harbor Special Operating Fund               | 202,396          | 199,533               | 160,591                | 160,449                | 160,449                   |
| Emergency/ACTA Reserve Fund                 | 47,368           | 47,439                | 47,475                 | 47,511                 | 47,608                    |
| Others                                      | <u>12,338</u>    | <u>5,726</u>          | <u>889</u>             | <u>3,445</u>           | <u>3,327</u>              |
| Total Unrestricted Funds                    | <u>\$444,355</u> | <u>\$351,793</u>      | <u>\$262,729</u>       | <u>\$441,834</u>       | <u>\$433,303</u>          |
| <b>Restricted Funds</b>                     |                  |                       |                        |                        |                           |
| China Shipping Mitigation Fund              | \$34,041         | \$34,305              | \$26,836               | \$22,623               | \$19,017                  |
| Community Aesthetic Fund for Parks          | 2,572            | 475                   | —                      | —                      | —                         |
| Community Mitigation Trust Fund—<br>TraPac  | 122              | 108                   | 108                    | 109                    | 111                       |
| Clean Truck Fee Fund                        | 3,717            | 521                   | 227                    | 226                    | 30                        |
| Batiquitos L/T Investment Fund <sup>4</sup> | 5,993            | 6,000                 | 6,006                  | 6,011                  | 6,032                     |
| Bond Funds                                  | 67,796           | 57,913                | 58,054                 | 97,461                 | 95,283                    |
| Customer Security Deposits                  | 3,225            | 3,183                 | 3,184                  | 3,159                  | 3,140                     |
| Other                                       | <u>3,356</u>     | <u>3,261</u>          | <u>2,699</u>           | <u>2,638</u>           | <u>2,813</u>              |
| Total Restricted Funds                      | <u>\$120,821</u> | <u>\$105,766</u>      | <u>\$ 97,114</u>       | <u>\$132,224</u>       | <u>\$126,426</u>          |
| Total Unrestricted and Restricted Funds     | <u>\$565,176</u> | <u>\$457,559</u>      | <u>\$ 359,843</u>      | <u>\$574,058</u>       | <u>\$559,729</u>          |

<sup>1</sup> In Fiscal Year 2013, the Department funded its increased level of capital improvement projects, and repaid its 2002 Series A Bonds and a loan provided by the State from its cash flows from operations and cash position.

<sup>2</sup> In Fiscal Year 2014, the Department funded its increased level of capital improvement projects from its cash flows from operations and cash position.

<sup>3</sup> In Fiscal Year 2015, the Department reimbursed the Harbor Revenue Fund with a portion of the proceeds of the Series 2014 Bonds for capital improvement expenditures that had previously been fund with cash on deposit in the Harbor Revenue Fund.

<sup>4</sup> As environmental mitigation, the Department created a fund to pay certain maintenance expenses at the Batiquitos Lagoon.

Source: Harbor Department of the City of Los Angeles

[Remainder of page intentionally left blank.]

**Investment of Funds.** Moneys on deposit in all of the Department’s unrestricted funds and the majority of the Department’s restricted funds are currently held and invested by the Treasurer of the City (the “Treasurer”) in the Treasurer’s general pooled investment fund (the “Pool”). Gains and losses on the Pool’s investments are allocated on a pro rata basis. The assets of the Pool as of June 30, 2016 are shown in the following Table 14:

**Table 14**  
**City of Los Angeles Pooled Investment Fund Investments**  
**As of June 30, 2016**  
**[To Be Updated]**

|   | <b>Market Value<br/>(millions)</b> | <b>Percent of<br/>Total</b> |
|---|------------------------------------|-----------------------------|
| Treasury Notes  | \$4,650                            | 55.06%                      |
| Corporate Notes                                       | 1,645                              | 19.47                       |
| Commercial Paper                                      | 1,155                              | 13.67                       |
| U.S. Agencies/Munis/Supras                            | 895                                | 10.60                       |
| Bank Deposits   | 90                                 | 1.07                        |
| Certificates of Deposit –<br>Account Registry Service | <u>11</u>                          | <u>0.13</u>                 |
| <b>Total</b>  | <b><u>\$8,446</u></b>              | <b><u>100.00%</u></b>       |

Source: City of Los Angeles, Office of the Treasurer

The latest Treasurer’s reports of its investments are contained on the Treasurer’s website at <http://finance.lacity.org/content/investmentReports.htm>.

The City’s treasury operations are managed in compliance with the State Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum investment maturities. The investment policy is reviewed and authorized by the City Council on an annual basis.

The Treasurer has indicated that none of the moneys on deposit in the Pool are currently invested in leveraged products, structured notes or inverse floating rate notes. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 20% of the Pool, a maximum maturity of 92 days and matching of the maturity to the re-investment. The Treasurer has indicated, however, that no reverse repurchase agreements are currently utilized with respect to moneys on deposit in the Pool. The Department does not have control over the investment of moneys in the Pool; the Treasurer exercises authority over the purchase of securities and the utilization of investment options permitted under the investment policy.

The average life of the investment portfolio for the General Pool as of June 30, 2016 was [825] days.

The proceeds of Parity Obligations and other moneys required to be deposited by the Department to the funds and accounts established under the Indenture and the Issuing Documents will be held and invested by the Trustee, at the direction of the Department, in investments permitted thereunder. The Department has previously deposited proceeds of certain Parity Obligations into the Common Reserve. The Department anticipates that such moneys will be invested in U.S. Treasury securities, federal agency securities or as otherwise permitted in the Indenture and the applicable Issuing Documents.

**Audits.** The Department will cause its books and accounts to be audited annually by an independent firm of certified public accountants and will make available for inspection by the Owners and the Trustee, at the office of the Department, a copy thereof, or a summary financial statement, upon request, to any Bond Owner. See “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014” for a copy of the Department’s most recent audited financial statements.

**Insurance.** The Indenture requires the Department to maintain and will continue to or cause to be procured and maintained insurance on the Harbor Assets with responsible insurers in such amounts and against such risks (including accident to or destruction of the Harbor Assets) as are usually covered in connection with harbor facilities similar to the Harbor Assets and owned by harbor departments similar to the Department so long as such insurance is available from reputable insurance companies at reasonable cost.

The Department will procure and maintain such other insurance which it deems advisable or necessary to protect its interests and the interests of the Owners, which insurance will afford protection in such amounts and against such risks as are usually covered in connection with similar harbor facilities owned by harbor departments similar to the Department.

Any insurance described in the above paragraphs may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with harbor facilities similar to those of the Department, and owned by harbor departments similar to the Department and is, in the opinion of an accredited actuary, actuarially sound.

The Department’s insurance program includes both property and casualty insurance. The property insurance program currently includes an all-risk policy with limits of \$1.5 billion per occurrence, including terrorism coverage, for all risks of direct loss or damage to the Port’s buildings, structures and personal property, and for all perils except earthquake and flood. The insurer providing the property insurance is rated “A+” from A.M. Best and “aa” for the long-term issuer credit rating.

The Department has determined that it is not required under the Indenture to maintain insurance against earthquake damage, although earthquake and flood perils, among other contingencies, are presently covered by a discretionary self-insurance emergency fund administered by the Department that had a balance of approximately \$47.608 million as of June 30, 2016. However, the Port, like the entire City, is located within a seismically active region. See “CERTAIN INVESTMENT CONSIDERATIONS—Seismic Activity.”

The Department also maintains comprehensive general liability insurance, which includes terrorism coverage, in the amount of \$150 million per occurrence for damages including death, personal injury, bodily injury, or property damage which includes a self-insured retention of \$1 million. Department tenants, vendors and contractors are required to provide a minimum of \$1 million of liability insurance, and to add the City as additional insured on their respective policies. The primary insurer is rated “A” per A.M. Best.

The Department’s Workers’ Compensation obligations are self-insured and administered by the City’s Personnel Department.

**Labor Relations.** The Port is a significant source of employment in the region. While the Department employs fewer than 1,000 persons, tenants of the Port employ approximately 6,400 persons and employment within port related industries exceed 16,000 jobs, approximately 85% of which are

related to trading and warehousing. See “THE PORT AND THE DEPARTMENT—Stevedoring and Cargo Handling” with respect to the labor relations involving the tenants of the Port.

Like most City departments, the majority of Department employees are represented by unions. The Department’s employees belong to 22 different bargaining units, which are represented by 11 different unions. The City is in negotiations with two bargaining units, which are represented by two different unions. The following is a list of all agreements with collective bargaining units and their expiration dates as of the date of this Official Statement.

| <b>Union</b>   | <b>Bargaining Units</b>  | <b>Agreement Period*</b>  |
|--|--|---|
| American Federation of State, County and Municipal Employees, AFL-CIO (“AFSCME”)                                       | Clerical and Support Employees   | July 1, 2015 to June 30, 2018                                     |
| AFSCME   | Executive Administrative Assistants  | July 1, 2015 to June 30, 2018                                     |
| Engineers and Architects Association   | Administrative; Supervisory<br>Administrative; Technical; Supervisory<br>Technical           | July 2, 2013 to June 22, 2019                                     |
| Los Angeles City Supervisors and Superintendents Association/Laborer’s International Union of North America, Local 777 | Supervisory Blue Collar  | July 1, 2015 to June 30, 2018                                     |
| Los Angeles County Building and Construction Trades Council, AFL-CIO   | Building Trades; Supervisory Building Trades   | July 1, 2015 to June 30, 2018                                     |
| Los Angeles Port Pilots Association ILWU, Local 68   | Port Pilots  | July 1, 2014 to June 24, 2017                                     |
| Los Angeles Port Police Association  | Harbor Peace Officers  | July 1, 2014 to June 23, 2018                                     |
| Los Angeles Port Police Command Officers Association   | Port of Los Angeles Command Officers   | July 1, 2014 to June 23, 2018                                     |
| Los Angeles Professional Managers Association (“LAPMA”)  | Managers   | July 1, 2015 to June 30, 2018                                     |
| LAPMA  | Personnel Directors  | Initial Memorandum of Understanding is currently being negotiated |
| Municipal Construction Inspectors Association, Inc.  | Inspectors   | June 1, 2011 to June 30, 2014                                     |
| Service Employees Int’l Union (“SEIU”) AFL-CIO, Local 721  | Equipment, Operation and Labor; Safety and Security; Service Employees; Service and Crafts   | July 1, 2015 to June 30, 2018                                     |
| SEIU   | Professional Engineering and Scientific; Supervisory Professional Engineering and Scientific | July 1, 2015 to June 30, 2018                                     |

\* The City and respective unions continue to honor the terms of expired employment contracts so long as negotiations are on-going. Source: Harbor Department of the City of Los Angeles

**Retirement Plans.** Approximately 86% of the Department’s full-time employees participate in the Los Angeles City Employees’ Retirement System (“LACERS”), administered by the City. The

remaining 14% of the Department's full-time employees, comprised of certain members of the Port Police, participate in the Los Angeles Fire and Police Pension System ("LAFPP" or "FPPP").

The LACERS plan and the LAFPP plan are the obligation of the City, which is responsible for the funding of LACERS, LAFPP and for the determination and resolution of any unfunded LACERS or LAFPP liabilities. Under requirements of the City Charter, the Department makes contributions to LACERS with respect to its employees in amounts determined by the City.

Retired members and surviving spouses and domestic partners of LACERS and LAFPP members are eligible for certain subsidies toward their costs of medical and dental insurance. Both LACERS and LAFPP advance fund retiree health insurance benefits for current retirees and active eligible members for many years, funding the annual contribution recommended by their actuaries. Prior to Fiscal Year 2012, there were no member contributions for health subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. Beginning in Fiscal Year 2012, in addition to employer contributions and investment returns, members are required to contribute towards the costs for health subsidy benefits.

According to the LACERS' Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015 (the "LACERS Valuation Report"), LACERS had an unfunded actuarial accrued liability ("UAAL") of approximately \$5.183 billion with respect to retirement benefits and approximately \$538 million with respect to health subsidy benefits as of June 30, 2015. As of June 30, 2014, LACERS had an UAAL of approximately \$5.304 billion with respect to retirement benefits and approximately \$722 million with respect to health subsidy benefits. The LACERS Valuation Report also indicated that as of June 30, 2015, LACERS had a funded ratio (based on the actuarial value of the assets of LACERS) of 69.4% with respect to retirement benefits and 79.7% with respect to health subsidy benefits. As of June 30, 2014, LACERS had a funded ratio (based on the actuarial value of the assets of LACERS) of 67.4% with respect to retirement benefits and 72.9% with respect to health subsidy benefits. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting asset performance, demographic changes, actuarial assumption/method changes, benefit structure changes or a variety of other actuarial gains and losses. The LACERS Valuation Report indicated that as of June 30, 2015, LACERS had a funded ratio (based on the market value of the assets of LACERS) of 70.5% with respect to retirement benefits and 81.0% with respect to health subsidy benefits. As of June 30, 2014, LACERS had a funded ratio (based on the market value of the assets of LACERS) of 72.6% with respect to retirement benefits and 78.5% with respect to health subsidy benefits.

According to the LAFPP's Actuarial Valuation and Review of Pension and Other Postemployment Benefits ("OPEB") as of June 30, 2015 (the "LAFPP Valuation Report"), LAFPP had a UAAL of approximately \$1.567 billion with respect to retirement benefits and approximately \$1.618 billion with respect to health subsidy benefits as of June 30, 2015. As of June 30, 2014, LAFPP had an UAAL of approximately \$2.436 billion with respect to retirement benefits and approximately \$1.582 billion with respect to health subsidy benefits. The LAFPP Valuation Report also indicated that, as of June 30, 2015, LAFPP had a funded ratio (based on the actuarial value of the assets of LAFPP) of 91.5% with respect to retirement benefits and 45.4% with respect to health subsidy benefits. As of June 30, 2014, LAFPP had a funded ratio (based on the actuarial value of the assets of LAFPP) of 86.6% with respect to retirement benefits and 43.2% with respect to health subsidy benefits. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting asset performance, demographic changes, actuarial assumption/method changes, benefit structure changes or a variety of other actuarial gains and losses. The LAFPP Valuation Report indicated that as of June 30, 2015, LAFPP had a funded ratio (based on the market value of the assets of LAFPP) of 94.6% with respect to retirement benefits and 46.9% with respect

to health subsidy benefits. As of June 30, 2014, LAFPP had a funded ratio (based on the market value of the assets of the LAFPP) of 93.8% with respect to retirement benefits and 46.8% with respect to health subsidy benefits.

The Department contributed approximately \$20.769 million and \$21.919 million to LACERS in Fiscal Years 2015 and 2016, respectively, and these contributions included both retirement benefits and OPEB. In each of these Fiscal Years, the Department contribution was equal to 100% of its annual required contribution as calculated by LACERS and its actuaries. The Department has contributed approximately \$21.761 million to LACERS for Fiscal Year 2017, its annual required contribution as calculated by LACERS and its actuaries.

The Department contributed approximately \$4.385 million and \$4.237 million to LAFPP in Fiscal Years 2015 and 2016, respectively, which contributions included both retirement benefits and OPEB. In each of these Fiscal Years, the Department contribution was equal to 100% of its annual required contribution as calculated by LAFPP and its actuaries. The Department has contributed approximately \$4.548 million to LAFPP for Fiscal Year 2017, its annual required contribution as calculated by LAFPP and its actuaries.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of assets for determining the UAAL, many pension plans, including LACERS and LAFPP, smooth market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial valuation of assets that are higher or lower than the market value of assets. LACERS and LAFPP recently amended their smoothing methodologies. For additional information regarding LACERS and LAFPP, see “APPENDIX B—CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES—SELECTED INFORMATION REGARDING THE CITY’S RETIREMENT AND PENSION SYSTEMS AND OTHER POST-EMPLOYMENT BENEFITS.” See also “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014.”

## **Financial Policies**

In September 2008 the Department established Financial Policies designed to provide effective financial guidelines and management, to establish financial controls, assist in reporting accurate financial results, promote consistent financial practices, operational efficiencies and best practices and promote compliance with applicable laws, regulations, and accounting and reporting standards. The Department’s financial policies address fiscal, leasing, capital improvement plan funding, financial reserve, risk management, disclosure, and debt management topics, and are intended to be reviewed annually and when necessary to address continued relevance and appropriate application. Key themes in the Department’s Financial Policies are prudence, transparency, sustainability and accountability.

The Department’s Financial Policies described below were most recently updated in October 2014 and approved by the Board in January 2015. The full Financial Policies are posted on the Port’s website: [http://www.portoflosangeles.org/pdf/POLA\\_Financial\\_Policies.pdf](http://www.portoflosangeles.org/pdf/POLA_Financial_Policies.pdf), however, such website, and the information contained therein are not incorporated into, and are not part of, this Official Statement.

**Fiscal Policies.** The objective of the Department’s Fiscal Policies is to balance prudently the Department’s core business requirements and strategic objectives with its financial resources. Pursuant to the City Charter, moneys deposited in the Harbor Revenue Fund may be appropriated or used for limited purposes. Pursuant to its Fiscal Policies, annually the Board will adopt a budget that is consistent with Department’s commitment to its strategies and goals as provided in the Department’s strategic plan (the

“Strategic Plan”). Recommendations to the Board which do not comply with the Department’s Fiscal Policies must be identified as noncompliant in an appropriate report. The Department’s annual financial statements will be presented to the Board upon the conclusion of the audit process. The Department will maintain Fiscal Policies designed to hold ratings commensurate with strategy and sustain transparency and accountability to its stakeholders.

***Budgetary Policies.*** Under the Department’s Budget Policy the Department prepares an annual budget plan for the Board’s review consistent with the established strategy and priorities of the Department, with the requirements of the Charter and the guidelines of the Mayor of the City. At the beginning of each budget year, and after consultation with the Board, the Executive Director of the Department will provide a letter to the head of each division, which will set forth the financial targets for the coming Fiscal Year.

Additionally, under the Budget Policy, (a) current appropriations for all funds are limited to the sum of available, unrestricted cash balances and revenues estimated to be received in the current budget year, and when necessary, debt issuance; (b) all divisions are required to operate within the adopted budget; (c) capital assets owned by the Department are required to be maintained on a regular schedule; (d) all Department funds are reconciled at the close of the Fiscal Year to determine the available cash balance at year-end; and (e) Board reports are required to include fiscal impact and economic benefit discussions as to how the proposed action may affect the budget, the Department’s financial condition, any benefits to the job market, plus the estimated costs and or benefit of the program or service in the current and future years.

***Revenue and Expense Policies.*** The Department’s Revenue and Expense Policies include the following key components: (a) charges and fees for facilities and services provided to its customers are structured to allow for marginal cost pricing and for the recovery of both direct and indirect costs incurred in the operation of the Port; (b) permit fees will be consistent with the Department’s Leasing Policy; (c) shipping revenues, revenue from the rental of the Port’s land and buildings (i.e., revenue from permit and lease agreements), and fee and royalty revenues collected by the Department permit the recovery of the cost of providing services and improvements and the Department will conduct regular reviews of its fee structure, rentals and charges for services, and other operating revenues and expenditures; (d) user charges, rents and fees are pursued and levied to support the cost of operations for which such amounts are charged, including direct, indirect and capital costs; (e) the marginal revenue from any operating activity must exceed the marginal cost of the activity; (f) operating expenses must be funded in whole by operating revenues; (g) the Department will limit financial support of programs funded by federal, state and private grants to avoid commitments that continue beyond available funding; and (h) the Department will seek new and diverse revenues.

***Leasing Policy.*** See “THE PORT AND THE DEPARTMENT—Operating Data—Rental Property” for a discussion of the Department’s Leasing Policy.

***Capital Improvement Plan Funding Policy.*** Amounts budgeted by the Department for capital improvements are taken from the Department’s Capital Improvement Plan (“Capital Improvement Plan”). The Capital Improvement Plan is a planning document which provides that Port facilities may be funded by a variety of sources including the Harbor Revenue Fund, long-term and short-term debt and grants, all subject to the review and approval of the Executive Director. Under the Capital Improvement Plan Funding Policy, capital projects are evaluated based on many factors including anticipated revenue to be generated from the capital project, incremental estimated management and operations expense, total project cost, project contingencies, job creation and if the capital project promotes recreation. All capital projects must be approved by the Board.

***Financial Reserve and Target Balance Policy.*** The Department's Financial Reserve and Target Balance Policy (the "Financial Reserve Policy") seeks to, among other things, (a) meet or exceed all debt indenture and City Charter requirements, (b) maintain access to capital markets and other sources of capital funding at the most efficient cost of funds, (c) manage financial risks prudently by maintaining required and additional financial reserves to meet the Department's financial needs, and (d) establish prudent levels of liquidity. The Department may seek, through the approval of the Board, the establishment of reserve funds for the Department. Currently, the Department's reserve funds include among others: an Emergency/ACTA Reserve Fund, established for unanticipated expenditures, disaster related recovery and Alameda Corridor revenue shortfalls, and the current minimum amount approved to be held in this fund is \$47 million; revenue bond reserve funds (including the Common Reserve), established to meet the requirements of the Issuing Documents; and a Special Operating Fund which combined with the balance in the Emergency/ACTA Fund would provide for approximately one year of operating expenses. Per the Financial Reserve Policy, the target balance in the Special Operating Fund is equal to the difference between (i) the average of the Department's operating expenses for the four most recent Fiscal Years and the adopted budget for the current Fiscal Year and (ii) the balance in the Emergency/ACTA Fund.

***Risk Management Policy.*** The Department's Risk Management Policy is designed to provide for the continuous identification, analysis and control of risk exposures, the determination of the best methods of preventing or limiting losses and the selection of the most economical method of financing losses through insurance or other means. The Department implements the following techniques under the Department's Risk Management Policy: (a) assumption of loss, (b) use of available government programs, (c) purchase of insurance; and (d) transfer options and any other program that will provide the Department with the most economical method of financing losses. Under the Department's Risk Management Policy, the Department will consider the purchase of insurance in the following cases: (a) the estimate of the cost of potential loss exceeds an amount considered as an allowable retention of risk and there are no other techniques available at a lesser cost; (b) services of loss adjustment and loss prevention are best secured through an insured program; and (c) legal or contractual obligations require insurance.

***Disclosure Policy.*** The Department's Disclosure Policy is designed to outline procedures for the preparation, review and dissemination of the Department's disclosure documents, which include primary offering disclosure documents and continuing disclosure filings, in order to ensure that such disclosure documents are accurate, complete and timely.

***Debt Management Policy.*** The objectives of the Department's Debt Management Policy include, among others, (a) maintaining the Department's existing credit ratings; (b) providing for an efficient overall cost of borrowing for the Department; (c) providing specific guidelines for the overall management of the Department's debt; (d) establishing a process for selecting consultants to assist the Department in the issuance and management of the Department's debt; and (e) supporting the Department's strategic plan objectives. The Debt Management Policy requires (i) the Department to maintain a minimum debt service coverage of 2.0x, and (ii) that the Department's variable rate exposure on long-term debt not exceed 20%.

## **CERTAIN INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Series 2016 Bonds involves investment risk and may not be suitable for all investors. Prospective purchasers of the Series 2016 Bonds are urged to read this Official Statement, including all Appendices, in its entirety. The factors set forth below, among others, may affect the security for the Series 2016 Bonds. However, the following does not purport to be an exhaustive listing of all considerations which may be relevant to investing in the Series 2016 Bonds. In addition, the

order in which the following information is presented is not intended to reflect the relative importance of these considerations.

### **Ability To Meet Rate Covenant**

As described in “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS” above, the Department has covenanted under the Indenture that it will fix rates, tolls and charges, rentals for leases, permits and franchises, and compensations or fees for franchises and licenses, at levels described herein.

In the State, marine terminal services and facilities are priced through permits, leases, preferential management and user agreements with water carriers and/or terminal operators. These arrangements generally provide for economic discounts from established tariffs in exchange for term commitments and/or minimum payment guarantees. A substantial majority of the Department’s shipping revenues are generated by such agreements. As payments under those agreements are usually based on current tariff rates, the Department can generally increase its revenues under those agreements either by increasing its tariff rates or through increases in shipping line volume. However, there are contractual, statutory, regulatory, practical, procedural and competitive limitations on the extent to which the Department can increase tariffs. Implementation of an increase in the schedule of rentals, rates, fees and charges for the use of the Port could have a detrimental impact on the operation of the Port by making the cost of operating at the Port unattractive to shipping lines and others in comparison to other locations, or by reducing the operating efficiency of the Port. See “THE PORT AND THE DEPARTMENT—Operating Data—Terminal Operations” above and “—Port Competition” below.

### **Demand for Port Facilities**

The demand for Port facilities is significantly influenced by a variety of factors, including, among others, the global and domestic economic and political conditions, governmental regulations, fuel prices, currency values, international trade, the availability and costs of effective labor support, availability and costs of vessels, containers and insurance, the adequacy and location of major distribution hubs, the financial condition of maritime-related industries, the increase of operational alliances and other structural conditions affecting maritime carriers.

Recently, one of the largest factors affecting demand at the Port and the Port of Long Beach has been congestion which is a result of ocean carriers divesting chassis (described below) ownership, shipping alliances and consolidation of the container ship industry (see “—Alliances and Consolidation of Container-Shipping Industry” below), prolonged labor contract negotiation (see “—Impact of Labor Negotiations” below), and large volume ships straining marine terminal operating methods.

In the fall of 2014, marine terminals at the San Pedro Bay Ports began to experience congestion as terminals were unable to meet the surge in cargo volumes as a result of a rebounding economy and the holiday season peak. A major factor contributing to the congestion was a chassis imbalance. Chassis are the trailers towed by large trucks and specifically designed for the movement of containers by highway and surface streets to and from container terminals. The historical model for cargo movement at the San Pedro Bay Ports was for terminals to maintain a stock of shipping line-owned chassis to be available for truckers to tow the containers to off-dock destinations. If a marine terminal ran low of chassis available for truckers to utilize to pick-up containers, there was no method for chassis to be shared from other marine terminals or shipping lines. In March 2015, the San Pedro Bay Ports helped facilitate an agreement between the independent chassis providers to share chassis between the different marine terminals at both San Pedro Bay Ports and between shipping lines. The agreement is expected to decrease chassis shortages at certain terminals and aid in the efficient movement of cargo.

Marine terminals continue to adjust to the deployment of Very Large Container Carriers (“VLCCs”). The so-called “mega vessels” are defined as vessels with a TEU capacity of 10,000 or more. The Port is one of few ports nationwide that has the physical infrastructure to handle VLCCs. Five years ago, the average size vessel calling at the Port carried 8,000 TEUs. Today, vessels carrying up 13,000 TEUs call weekly and larger vessels have made calls, including the 18,000 TEU-capacity *Benjamin Franklin*, the largest container vessel to call North America. More of these vessels are expected to arrive in the coming years.

The utilization of the Port’s facilities, and therefore the Revenues of the Department, are also impacted by the availability of alternate port facilities at competitive prices. See “—Port Competition” below.

### **Port Competition**

There is significant competition for container traffic among North American ports. Success depends largely on the size of the local market and the efficiency of the port and inland transportation systems for non-local destinations. The utilization of the Department’s facilities, and therefore the revenues of the Department, is impacted by the availability of alternate port facilities at competitive prices. The revenues of the Department may be adversely impacted by increasing competition from other port facilities; however, the Department cannot predict the scope of any such impact at this time.

Primary competition for the Port comes from the Port of Long Beach, the Port of Oakland, the Ports of Seattle and Tacoma (in August 2015, the Ports of Seattle and Tacoma formed the Northwest Ports Alliance, a port development authority to jointly manage the container, breakbulk, auto and some bulk terminals at the Ports of Seattle and Tacoma), the Port of Vancouver and the Port of Prince Rupert, both located in British Columbia, Canada. All of these ports compete with the Port for discretionary intermodal cargo destined for locations in the Central and Eastern United States and Canada. Discretionary cargo makes up approximately 50% of cargo arriving at the Port. Currently, this discretionary cargo moves eastward primarily by rail, after being off loaded at West Coast ports in the United States and Canada. The volume of discretionary cargo is highly elastic and is controlled largely by cargo owners and/or ocean carriers who can direct and redirect cargo to any port they choose. The greatest risk to the Port’s market share is with the intermodal discretionary cargo segment. The San Pedro Bay Ports also compete for both local cargo (e.g., cargo consumed within the locally defined region) and cargo routed through Southern California for other reasons (e.g., superior inland distribution capability).

Additional port facilities and enhancement thereto on the West Coast of North America, elsewhere in the United States and abroad (including, among others, the Port of Long Beach, the Port of Oakland, the Port of Portland, the Ports of Seattle and Tacoma, the Port of Vancouver and the Port of Prince Rupert) and improvements at the Panama Canal that would allow larger ships to traverse the canal, are currently in planning phases, in construction or recently opened and operating. Although each of these other ports and facilities currently has less capacity than the Port, a variety of factors may influence port tenants to alter their shipping practices. While the Revenues of the Department may be adversely impacted by increasing competition from other port facilities, the Department cannot predict the scope of any such impact at this time. In addition, the imposition of fees that apply only to the Port or to a group of ports that includes the Port, may increase the cost to ocean carriers of utilizing the Port. If such fees are imposed, the Department may adjust the tariffs or other charges applicable to its ocean carriers to moderate some or all of the potential impact, which in turn may reduce revenues.

The use of all-water routes to the East and Gulf Coasts of the U.S. is an alternative to Asian intermodal cargo moving through United States West Coast ports. All-water service from Asia to the Gulf of Mexico and East Coast ports through the Panama Canal and, to a much lesser extent, through the

Suez Canal, also compete for the same cargos. Demand for these all-water services increased following the 2002 labor problems that occurred on the West Coast. The primary appeal of the all-water routes is the expected reliability of the services (i.e., the lack of perceived labor shortages or stoppages). Constraints to all-water routes include lack of channel depth at many Gulf and East Coast ports compared to West Coast ports as well as vessel size limitations of the expanded Panama Canal. The latter constraint is being partially addressed by an expansion of the Panama Canal, completed and opened to commercial traffic in June 2016. The expanded Panama Canal will allow larger vessels able to carry up to 12,600 TEUs to navigate the isthmus in order to reach Gulf and East Coast ports. However, increased Panama Canal fees may impact routing decisions in the long term and container ships even larger than those of New Panamax size will not fit the newly expanded Panama Canal. At the beginning of August 2015, an expansion of the Suez Canal opened, which allows two-way traffic in the Canal and increased capacity for larger vessels. The competitive landscape also includes plans now in the works for many ports to increase channel depth and remove other physical obstacles which prevent the calling of “big ships,” and enhancing operational efficiency, through the purchase and use of new equipment and automation, as well as augmenting transportation infrastructure.

Overall cost is also a significant factor in cargo routing decisions. In addition, the imposition of fees that apply only to the Port or to a group of ports that includes the Port may increase the cost to ocean carriers in utilizing the Port. If such fees are imposed, the Department may adjust the tariffs or other charges applicable to its ocean carriers to moderate some or all of the potential impact, which in turn would reduce revenues.

### **Consolidation of the Containerized Cargo Industry**

During the past 10 years, the containerized cargo industry has been under pressure resulting from a number of factors, including the world-wide recession of 2008 and 2009, overcapacity of available ships, high costs of acquiring larger ships, decreasing freight rates and volatile fuel costs. In response to these challenges, among others, shipping lines have either formed strategic mega shipping alliances or merged their operations.

In 2014, for example, six shipping companies formed the “G6 Alliance” which has received regulatory approval to cooperate internationally in carrying shipments between Asia and the U.S. West Coast and between Northern Europe and all United States’ ports. In that same year, Hapag-Lloyd, a member of the G6 Alliance, merged with Compañía Sud Americana de Vapores (CSAV) to form the fourth largest containerized cargo shipping line. Later in 2014, Maersk and Mediterranean Shipping Company formed the 2M Alliance; CMA-CGM, China Shipping Container Lines and United Arab Shipping Co. formed the O3 Alliance; and COSCO, K-Line, Yang Ming and Hanjin Shipping received regulatory approval to include Evergreen Line into its vessel-sharing agreement in trans-Pacific and Atlantic routes.

More recently COSCO and China Shipping officially merged their fleets in February 2016, and subject to regulatory approval, together with the Evergreen Line, OOCL and CMA-CGM will enter into a new shipping alliance in April 2017 called the Ocean Alliance. This alliance will modify the composition of the G6 Alliance and the CKYHE Alliance. In July 2016, Hapag Lloyd entered into an agreement with United Arab Shipping Company (“UASC”) to merge their collective operations and become the fifth largest container shipping company in the world. As of April 2017, subject to regulatory approval, Hapag Lloyd (including CSAV and UASC), NYK, MOL, K-Line and Yang Ming will operate under a newly formed alliance called “THE” (Transport High Efficiency) Alliance.

On July 18, 2016, it was announced that CMA-CGM acquired almost 100% of the outstanding shares of Neptune Orient Lines (“NOL”), parent company of American President Lines (“APL”) which in

turn owns Eagle Marine Services (“EMS”), a tenant at the Port of Los Angeles. With this acquisition, it is expected that container volume through the EMS facility will significantly increase. Many of the companies within these alliances operate at the Port, and additional consolidation of alliances and/or of shipping lines themselves could occur. The Department cannot predict all of the consequences of such realignments and consolidations or how long they will persist. Pending the alliance formation, confusion and inefficiencies, especially in the beginning of any such alliance or consolidation, have been noted by terminal operators as well as shippers.

## **Security at the Port**

As a result of the terrorist attacks of September 11, 2001, the Maritime Transportation Security Act (“MTSA”) was signed into law on November 25, 2002 to require sectors of the maritime industry to implement measures designed to protect ports and waterways of the United States from a terrorist attack. MTSA requires interagency teamwork within the Department of Homeland Security, including the U.S. Coast Guard, the Transportation Security Administration (“TSA”), the Bureau of Customs and Border Protection and the Department of Transportation’s Maritime Administration to develop security regulations. The security regulations focus on those sectors of the maritime industry that have a higher risk of involvement in a transportation security incident, including various tank vessels, barges, large passenger vessels, cargo vessels, towing vessels, offshore oil and gas platforms and port facilities that handle certain kinds of dangerous cargo or service the vessels included in this list. These regulations require, among other things, that port and vessels owners assess their vulnerabilities and then develop plans that may include implementing vehicle, container and baggage screening procedures, accessing control measures and/or installing surveillance equipment. The Department has procedures in place for compliance with MTSA.

National and local law enforcement officials have warned that additional terrorist attacks upon key infrastructure and other targets in the United States are possible. The Department and the surrounding waterways are particularly visible infrastructure assets that could be the subject of future attempted terrorist attacks. A terrorist attack on the Department or the surrounding waterways could have a material adverse effect on the collection of Revenues needed to repay the Series 2016 Bonds and the Department’s other obligations. See “THE PORT AND THE DEPARTMENT—Introduction and Organization—Port Security.”

## **Seismic Activity**

The Port is located in an area that is seismically active. The two faults closest to the Port are the Palos Verdes fault and the Newport-Inglewood fault. More distant faults with a history of causing earthquakes include the San Andreas and San Jacinto faults. A significant earthquake along these or other faults is possible during the period the Series 2016 Bonds will be outstanding.

A forecast prepared by U.S. Geological Survey, Southern California Earthquake Center, and California Geological Survey and released in April 2008 indicates that there is a 67% chance that an earthquake measuring 6.7 or larger on the Richter Scale will occur in the greater Los Angeles area, and a 97% chance that such an earthquake will occur in Southern California, by 2037. The Port could sustain extensive damage to its facilities in a major seismic event from ground motion and liquefaction of underlying soils, which damage could include slope failures along the shoreline, pavement displacement, distortions of pavement grades, breaks in utility, drainage and sewage lines, displacement or collapse of buildings, failure of bulkhead walls, and rupture of gas and fuel lines. A major seismic event in Southern California, or elsewhere in the world, also could result in the creation of a tsunami that could cause flooding and other damage to the Port. Damage to Port facilities as a result of a seismic event could materially adversely affect Revenues.

The Department maintains a discretionary emergency reserve fund which at June 30, 2016 contained approximately \$47.6 million, to cover, among other things, uninsured losses, including damages from earthquake. Other than the Department's self-funded reserve, the Department does not maintain insurance coverage against earthquake damage because of the high costs in proportion to the relatively low levels of coverage currently available. To date, no earthquakes have caused structural damage to Department facilities. See "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Insurance."

### **Pension Liability**

As described in "FINANCIAL INFORMATION CONCERNING THE DEPARTMENT—Other Financial Matters—Retirement Plans," eligible employees of the Department participate in pension plans administered by the City. See also "APPENDIX B—CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES—SELECTED INFORMATION REGARDING THE CITY'S RETIREMENT AND PENSION SYSTEMS AND OTHER POST-EMPLOYMENT BENEFITS." Given inherent volatility risk in various market indices, required contributions to the City pension plans by the Department as a percent of salaries may face increases that may or may not be material depending upon a variety of actuarial factors. It is not possible to predict future investment returns.

### **Environmental Compliance and Impact; Air Emissions**

The Department is subject to legal and regulatory requirements relating to air emissions that may be generated by activities at the Department. Such requirements mandate and offer certain incentives for reductions of air pollution from ships, trains, trucks and other operational activities. Paying for mandated air pollution reduction infrastructure, equipment and other measures may become a significant portion of the Department's capital budget and operating budget. Such expenditures are necessary even if the Department does not undertake any new revenue-generating capital improvements, and the Department cannot provide assurances that the actual cost of the required measures will not exceed the forecasted amount.

In addition to the changing legal and regulatory guidelines for air emissions, the standards for required environmental impact review of Department development proposals under the CEQA and similar federal laws are becoming more rigorous and complex. Such modifications to the review process may significantly delay or curtail the Department's efforts to maintain and repair existing infrastructure or to add revenue-generating infrastructure. Additionally, the costs of such projects may be significantly increased to pay for environmental or air quality mitigations necessary to obtain regulatory approvals or survive potential challenges to the Department's environmental impact analysis and mitigation. See "THE PORT AND THE DEPARTMENT—Environmental and Regulatory Matters."

In addition, certain individuals or organizations may nonetheless seek legal remedies to require the Department to take further actions to mitigate health hazards or to seek damages in connection with the environmental impact of its seaport activities. The Department has developed its CAAP to mitigate such health risks. See "THE PORT AND THE DEPARTMENT—Environmental and Regulatory Matters—Clean Air Action Plan." Nonetheless, there is a risk that such legal action will be costly to defend, could result in substantial damage awards against the Department or curtail certain Department developments or operations.

In May 2009, the California Climate Change Center released a final paper entitled "The Impacts of Sea-Level Rise on the California Coast" that was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation, and the California Ocean Protection Council. The paper posits

that increases in sea level will be a significant impact of climate change over the next century and that future flood risk with sea-level rise could be significant at State's major ports, including the Port. While noting that, among other things, sea-level rise can reduce bridge clearance, reduce efficiency of port operations or flood transportation corridors to and from ports, the report states that impacts are highly site-specific and somewhat speculative. The Department is unable to predict whether sea-level rise or other impacts of climate change will occur while the Series 2016 Bonds are outstanding, and if any such events occur, whether there will be an adverse impact, material or otherwise, on Revenues.

### **Termination or Expiration of Material Contracts**

The Department has entered into a number of material contracts and other relationships relating to the use or operation of Port facilities. Should a significant number of the Department's permittees default on their obligations, terminate their relationships with the Department or fail to renew their commitments upon expiration, the amount of Revenues realized by the Department could be materially impaired and this could have an adverse impact on the holders of the Series 2016 Bonds. See "THE PORT AND THE DEPARTMENT—Operating Data—Rental Property."

### **Impact of Labor Negotiations**

Recent protracted negotiations between the ILWU and the Association, although not involving any employees of the Department, had a compounding effect on congestion issues that had slowed down container cargo movement through the San Pedro Bay Ports since September 2014. The Association and the ILWU entered into a new contract on May 21, 2015, which was ratified by the ILWU membership on May 22, 2015, retroactive to July 1, 2014. The current contract expires on June 30, 2019. The previous contract between the Association and ILWU expired on June 30, 2014. The Association and the ILWU began negotiating a new contract in May 2014, but did not agree on a new contract until May 2015. The protracted negotiations contributed to an extended slowdown of container cargo movements through the Port and the Port of Long Beach. The Department's revenues and container volumes at the Port were temporarily impacted during Fiscal Year 2015 as a result of the slowdown and other congestion factors, but full-Fiscal Year revenues were not materially affected and container volumes decreased only slightly (0.23%). Prolonged work slowdowns or stoppages, if they occur, could materially adversely affect Department revenues.

### **Enforceability of Remedies**

The remedies available to the Owners of the Series 2016 Bonds upon an event of default under the Indenture are in many respects dependent upon regulatory and judicial actions that are in many instances subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Indenture may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the Series 2016 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2016 Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the enforcement of creditors' rights generally and by equitable remedies and proceedings generally and to limitations on legal remedies against cities in the State.

### **[Potential Limitation of Tax Exemption of Interest on Series 2016 Bonds]**

[From time to time, the President of the United States, the United States Congress and/or state legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the Series 2016 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full

current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, as amended, or court decisions may also cause interest on the Series 2016 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Internal Revenue Code of 1986, as amended, or court decisions may also affect the market price for, or marketability of, the Series 2016 Bonds. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. See “TAX MATTERS—Changes in Federal and State Tax Law.”][To be updated to reflect comments from Nixon Peabody]

## **Forward-Looking Statements**

This Official Statement contains statements relating to future results that are “forward-looking statements.” When used in this Official Statement, the words “estimate,” “anticipate,” “forecast,” “project,” “intend,” “propose,” “plan,” “expect” and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. See “INTRODUCTION—Forward-Looking Statements.”

## **CONTINUING DISCLOSURE**

The Department will covenant for the benefit of Owners and beneficial owners of the Series 2016 Bonds to provide certain financial information and operating data relating to the Department and the Port (the “Annual Report”) by not later than six months following the end of the Department’s Fiscal Year (which Fiscal Year currently ends on June 30), commencing with the Annual Report for the Fiscal Year ended June 30, 2016, and to provide notices of the occurrence of certain enumerated events. The Annual Report and any notices of certain events will be filed by the Department with the MSRB through the EMMA system. The specific nature of the information to be contained in the Annual Report and the notices of certain events is set forth in “APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants will be made in order to assist the underwriters for the Series 2016 Bonds in complying with Rule 15c2-12.

During the past five calendar years the Department was in compliance with its continuing disclosure undertakings except in the following instances: (i) its Fiscal Year 2012 annual report filing and audited financial statements were filed on December 5, 2012 and November 29, 2012, respectively, and only as they pertain to its Refunding Revenue Bonds 2011 Series A and 2011 Series B (the “2011 Bonds”), were inadvertently filed later than 181 days after the end of Fiscal Year 2012 due to missing 2011 Bonds CUSIP numbers in EMMA’s database that resulted in such filings not being properly linked to the 2011 Bonds; and (ii) its Fiscal Year 2013 audited financial statements were filed on December 16, 2013, and only as it pertains to its 2011 Bonds, were inadvertently filed later than 181 days after the end of Fiscal Year 2013 due to missing 2011 Bonds CUSIP numbers in EMMA’s database that resulted in such filings not being properly linked to the 2011 Bonds.

## **TAX MATTERS**

### **Federal Income Taxes**

The Internal Revenue Code of 1986, as amended (the “Code”), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2016 Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2016 Bonds to be included in gross income for federal

income tax purposes retroactive to the date of issue of the Series 2016 Bonds. Pursuant to the Indenture and the Tax and Nonarbitrage Certificate executed by the Department in connection with the issuance of the Series 2016 Bonds (the “Tax Certificate”), the Department has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2016 Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Department has made certain representations and certifications in the Indenture and the Tax Certificate. Bond Counsel will not independently verify the accuracy of those representations and certifications of the Department.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenants, and the accuracy of certain representations and certifications made by the Department described above, interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code, except that no opinion is expressed as to the exclusion of interest on the Series 2016A Bonds from gross income for any period during which such Series 2016A Bonds are held by a person who, within the meaning of Section 147(a) of the Code, is a “substantial user” of the facilities refinanced with proceeds of the Series 2016A Bonds, or a “related person.”

Bond Counsel is further of the opinion that interest on the Series 2016A Bonds is treated as preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations.

Bond Counsel is also of the opinion that interest on the Series 2016B Bonds and the Series 2016C Bonds is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2016B Bonds and the Series 2016C Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

### **State Taxes**

Bond Counsel is also of the opinion that interest on the Series 2016 Bonds is exempt from personal income taxes of the State of California under present state law. Bond Counsel expresses no opinion as to other state or local tax consequences arising with respect to the Series 2016 Bonds nor as to the taxability of the Series 2016 Bonds or the income therefrom under the laws of any state other than the State of California.

### **Original Issue Discount**

Bond Counsel is further of the opinion that the excess of the principal amount of any maturity of the Series 2016 Bonds over the price at which a substantial amount of such maturity of the Series 2016 Bonds was sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a “Discount Bond” and collectively, the “Discount Bonds”) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2016 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

## **Original Issue Premium**

Series 2016 Bonds sold at prices in excess of their principal amounts are “Premium Bonds.” An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser’s adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

## **Ancillary Tax Matters**

Ownership of the Series 2016 Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, and individuals seeking to claim the earned income credit. Ownership of the Series 2016 Bonds may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2016 Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Series 2016 Bonds is subject to information reporting to the Internal Revenue Service (the “IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2016 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinion attached as Appendix E. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2016 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

## **Changes in Law and Post Issuance Events**

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2016 Bonds for federal or state income tax purposes, and thus on the value or marketability of the Series 2016 Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2016 Bonds from gross income for federal or state income tax purposes, or otherwise. Bond Counsel notes that each year since 2011, President Obama released legislative proposals that would limit the extent of the exclusion from gross income of interest on obligations of states and political subdivisions under Section 103 of the Code (including the Series 2016

Bonds) for taxpayers whose income exceeds certain thresholds. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Series 2016 Bonds may occur. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding the impact of any change in law on the Series 2016 Bonds. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2016 Bonds may affect the tax status of interest on the Series 2016 Bonds. Bond Counsel expresses no opinion as to any Federal, state or local tax law consequences with respect to the Series 2016 Bonds, or the interest thereon, if any action is taken with respect to the Series 2016 Bonds or the proceeds thereof upon the advice or approval of other counsel.

## **RATINGS**

Moody's Investors Service, Inc. ("Moody's"), S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), and Fitch Ratings ("Fitch") have assigned the Series 2016 Bonds ratings of "[ ]" (stable outlook), "[ ]" (stable outlook) and "[ ]" (stable outlook), respectively. Such credit ratings reflect only the views of such organizations and any desired explanation of the meaning and significance of such credit ratings, including the methodology used and any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses, which are current as of the date of this Official Statement: Moody's Investors Service, Inc. 7 World Trade Center, 250 Greenwich Street, 23<sup>rd</sup> Floor, New York, New York 10007; S&P Global Ratings, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the ratings will remain in effect for any given period of time or that any such rating will not be revised, either downward or upward, or withdrawn entirely, or a positive, negative or stable outlook announced, by the applicable rating agency, if, in its judgment, circumstances so warrant. The Department undertakes no responsibility to bring to the attention of the Owners of the Series 2016 Bonds any announcement regarding the outlook of any rating agency with respect to the Series 2016 Bonds. Any downward revision or withdrawal or announcement of negative outlook could have an adverse effect on the market price of the Series 2016 Bonds. Maintenance of ratings will require periodic review of current financial data and other updating information by assigning agencies.

## **UNDERWRITING**

The Series 2016 Bonds are being purchased by RBC Capital Markets, LLC, Citigroup Global Markets Inc., Loop Capital Markets LLC (the "Underwriters") from the Department at a price of \$\_\_\_\_\_ (which consists of the principal amount of the Series 2016 Bonds, plus/less an original issue premium/discount of \$\_\_\_\_\_ and less an underwriters' discount of \$\_\_\_\_\_), subject to the terms of a bond purchase agreement, dated [\_\_\_\_\_], 2016 (the "Bond Purchase Agreement"), between RBC Capital Markets, LLC as representative of the Underwriters and the Department. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2016 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The initial public offering prices of the Series 2016 Bonds set forth on the inside front cover hereof may be changed from time to time by the Underwriters. The Underwriters may offer and sell the Series 2016 Bonds into unit investment trusts or money market funds at prices lower than the public offering prices stated on the cover and the inside of the cover hereof.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities.

Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Department, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Department.

Citigroup Global Markets Inc., an Underwriter of the Series 2016 Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the Series 2016 Bonds.

Loop Capital Markets LLC. (“Loop Capital”), one of the Underwriters of the Series 2016 Bonds, has entered into a distribution agreement with Deutsche Bank Securities Inc. (“DBS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the distribution agreement (if applicable to this transaction), DBS will purchase Series 2016 Bonds from Loop Capital at the original issue prices less a negotiated portion of the selling concession applicable to any Series 2016 Bonds that such firm sells.

## **LITIGATION**

### **No Litigation Relating to the Series 2016 Bonds**

There is no action, suit or proceeding known to be presently pending or threatened restraining or enjoining the execution, issuance or delivery of the Series 2016 Bonds or any of the documents related thereto or in any way contesting or affecting the validity of the foregoing or the action of the Department taken with respect to the issuance or delivery thereof.

### **Litigation Relating to the Department and the Port**

There is no action, suit or proceeding known to be presently pending or threatened against the Department or the Port which singly or together with any other action, suit or proceeding would have a material adverse impact on the ability of the Department to pay the principal of and interest on the Series 2016 Bonds.

## **LEGAL OPINIONS**

The validity of the Series 2016 Bonds and certain other legal matters are subject to the approving opinion of Nixon Peabody LLP, Bond Counsel to the Department. A complete copy of the proposed form of Bond Counsel’s opinion is contained in Appendix E hereto. Certain matters will be passed upon for the Department by the City Attorney of the City of Los Angeles. Certain legal matters in connection with the Official Statement will be passed upon by Kutak Rock LLP, Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. All of the fees of Bond Counsel, Disclosure Counsel and Underwriter’s Counsel with regard to the issuance of the Series 2016 Bonds are contingent upon the issuance and delivery of the Series 2016

Bonds. Bond Counsel, Disclosure Counsel and Underwriters' Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

### **FINANCIAL ADVISOR**

The Department has retained the services of Montague DeRose and Associates, LLC, as Financial Advisor in connection with the issuance of the Series 2016 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

### **FINANCIAL STATEMENTS**

The financial statements of the Department for the Fiscal Years ended June 30, 2015 and 2014 and Independent Auditors' Report thereon are attached hereto as Appendix A. The financial statements for the Department for the Fiscal Year ended June 30, 2015 and 2014 have been audited by Simpson & Simpson, LLP, Certified Public Accountants, as stated in their report.

Simpson & Simpson, LLP, Certified Public Accountants, has not been engaged to perform and has not performed since the date of its report included herein as Appendix A, any procedures on the financial statements addressed in that report. Simpson & Simpson, LLP, Certified Public Accountants, also has not performed any procedures relating to this Official Statement.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Upon delivery of the Series 2016 Bonds, Grant Thornton LLP, a firm of independent certified public accountants, will deliver a report stating that it has verified the mathematical accuracy of the computations contained in the provided schedules to determine that the amounts to be held in the respective redemption accounts will be sufficient to pay the redemption price of and interest on the Refunded Bonds on the redemption date for the respective Refunded Bonds as further described under "PLAN OF REFUNDING AND APPLICATION OF SERIES 2016 BOND PROCEEDS."

### **MISCELLANEOUS**

The covenants and agreements of the Department for the benefit of the Owners are set forth in the Resolutions and the Indenture and reference is made to those documents for a statement of the rights and obligations of the Department and the Owners. Neither this Official Statement, nor any statements which may have been made orally or in writing, are to be construed as a contract with the Owners of any of the Series 2016 Bonds. Brief descriptions of portions of the Resolutions and the Indenture are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive; all references herein to the Resolutions and the Indenture are qualified in their entirety by reference to such documents, and all references to the Series 2016 Bonds are qualified in their entirety to the definitive form thereof and the information with respect thereto included in the Resolutions and the Indenture.

The Board has authorized the execution and delivery of this Official Statement by the Executive Director of the Department.

By \_\_\_\_\_  
Executive Director, Harbor Department of the  
City of Los Angeles

**APPENDIX A**

**AUDITED FINANCIAL STATEMENTS OF THE HARBOR DEPARTMENT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014**

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## **APPENDIX B**

### **CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES**

The following information has been provided to the Department by the City of Los Angeles. Table numbers in this Appendix B are presented as provided in the information provided by the City of Los Angeles and therefore may not be consecutive. Capitalized terms not defined in this Appendix will have the meanings given to them in the Official Statement.

#### **INTRODUCTION**

The City of Los Angeles, California (the “City”) is the second most populous city in the United States with an estimated 2015 population of 3.96 million persons. Los Angeles is the principal city of a metropolitan region stretching from the City of Ventura to the north, the City of San Clemente to the south, the City of San Bernardino to the east, and the Pacific Ocean to the west.

Founded in 1781, Los Angeles was for its first century a provincial outpost under successive Spanish, Mexican and American rule. The City experienced a population boom following its linkage by rail with San Francisco in 1876. Los Angeles was selected as the Southern California rail terminus because its natural harbor seemed to offer little challenge to San Francisco, home of the railroad barons. But what the region lacked in commerce and industry, it made up in temperate climate and available real estate, and soon tens and then hundreds of thousands of people living in the Northeastern and Midwestern United States migrated to new homes in the region. Agricultural and oil production, followed by the creation of a deep water port, the opening of the Panama Canal, and the completion of the City-financed Owens Valley Aqueduct to provide additional water, all contributed to an expanding economic base. The City’s population climbed to 50,000 persons in 1890, and then swelled to 1.5 million persons by 1940. During this same period, the motor car became the principal mode of American transportation, and the City developed as the first major city of the automotive age. Following World War II, the City became the focus of a new wave of migration, with its population reaching 2.4 million persons by 1960.

The City and its surrounding metropolitan region have continued to experience growth in population and in economic diversity. The City’s 470 square miles contain 11.5% of the area and about 39% of the population of the County of Los Angeles, California (the “County”). Tourism and hospitality, professional and business services, direct international trade, entertainment (including motion picture and television production), and wholesale trade and logistics all contribute significantly to local employment. Emerging industries are largely technology driven, and include biomedical, digital information technology, and environmental technology. The County is a top-ranked county in manufacturing in the nation. Important components of local industry include apparel, computer and electronic components, transportation equipment, fabricated metal, and food. Fueled by trade with the Pacific Rim countries, the Ports of Los Angeles and Long Beach combined are the busiest container ports in the nation. As home to the film, television and recording industries, as well as important cultural facilities, the City serves as a principal global cultural center.

#### **SELECTED ECONOMIC AND DEMOGRAPHIC INFORMATION**

*Although the economic and demographic information provided below has been collected from sources that the City considers to be reliable, the City has made no independent verification of the information provided by non-City sources and the City takes no responsibility for the completeness or accuracy thereof. The information and data in this Appendix B are believed to be the latest data available to the City; however, the current state of the economy of the City, State of California and the*

*United States of America may not be reflected in the data discussed below, because more up-to-date publicly available information is not available. This information is provided as general background.*

## Population

The table below summarizes City, County, and State of California (the “State”) population, estimated as of January 1 of each year. The population estimates for 2005 and later incorporate 2010 U.S. Census counts as the benchmark and, as a result, are noticeably lower than previously published estimates.

**Table B-1  
City, County and State Population Statistics**

|      | <b>City of Los Angeles</b> | <b>Annual Growth Rate *</b> | <b>County of Los Angeles</b> | <b>Annual Growth Rate *</b> | <b>State of California</b> | <b>Annual Growth Rate *</b> |
|------|----------------------------|-----------------------------|------------------------------|-----------------------------|----------------------------|-----------------------------|
| 2000 | 3,694,742                  | -                           | 9,519,330                    | -                           | 33,873,086                 | -                           |
| 2005 | 3,769,131                  | 0.40%                       | 9,816,153                    | 0.62%                       | 35,869,173                 | 1.15%                       |
| 2010 | 3,792,621                  | 0.12                        | 9,818,605                    | 0.00                        | 37,253,956                 | 0.76                        |
| 2011 | 3,818,120                  | 0.13                        | 9,847,887                    | 0.06                        | 37,536,835                 | 0.15                        |
| 2012 | 3,860,986                  | 0.22                        | 9,956,722                    | 0.22                        | 37,881,357                 | 0.18                        |
| 2013 | 3,907,519                  | 0.24                        | 10,023,753                   | 0.13                        | 38,239,207                 | 0.19                        |
| 2014 | 3,945,037                  | 0.19                        | 10,093,053                   | 0.14                        | 38,567,459                 | 0.17                        |
| 2015 | 3,980,423                  | 0.18                        | 10,155,069                   | 0.12                        | 38,907,642                 | 0.18                        |
| 2016 | 4,030,904                  | 0.25                        | 10,241,335                   | 0.17                        | 39,255,883                 | 0.18                        |

\* For five-year time series, figures represent average annual growth rate for each of the five years.

Sources: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 and 2010 Census Counts, Sacramento, California, November 2012. State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2016, with 2010 Census Benchmark. Sacramento, California, May 2016.

## Industry and Employment

The following table summarizes the average number of employed and unemployed residents of the City and the County, based on the annual “benchmark,” an annual revision process in which monthly labor force and payroll employment data, which are based on estimates, are updated based on detailed tax records. The “benchmark” data is typically released in March for the prior calendar year.

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The California Employment Development Department has reported preliminary unemployment figures for May 2016 of 4.7% statewide, 4.3% for Los Angeles County, and 4.5% for the City (not seasonally adjusted).

**Table B-2**  
**Estimated Average Annual Employment and**  
**Unemployment of Resident Labor Force \***

| <b>Civilian<br/>Labor Force</b> | <b>2011</b>      | <b>2012</b>      | <b>2013</b>      | <b>2014</b>      | <b>2015</b>      |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| City of Los Angeles             |                  |                  |                  |                  |                  |
| Employed                        | 1,671,300        | 1,680,100        | 1,728,500        | 1,835,200        | 1,870,400        |
| Unemployed                      | <u>261,200</u>   | <u>230,900</u>   | <u>211,700</u>   | <u>175,700</u>   | <u>140,300</u>   |
| Total                           | <u>1,932,600</u> | <u>1,911,000</u> | <u>1,940,200</u> | <u>2,010,900</u> | <u>2,010,700</u> |
| County of Los Angeles           |                  |                  |                  |                  |                  |
| Employed                        | 4,326,100        | 4,378,800        | 4,495,700        | 4,610,800        | 4,674,800        |
| Unemployed                      | <u>603,400</u>   | <u>535,800</u>   | <u>486,600</u>   | <u>415,100</u>   | <u>336,900</u>   |
| Total                           | <u>4,929,500</u> | <u>4,914,500</u> | <u>4,982,300</u> | <u>5,025,900</u> | <u>5,011,700</u> |
| Unemployment Rates              |                  |                  |                  |                  |                  |
| City                            | 13.5%            | 12.1%            | 10.9%            | 8.7%             | 7.0%             |
| County                          | 12.2             | 10.9             | 9.8              | 8.3              | 6.7              |
| State                           | 11.7             | 10.5             | 8.5              | 7.5              | 6.2              |
| United States                   | 8.9              | 8.1              | 7.4              | 6.2              | 5.3              |

\* March 2015 Benchmark report as of March 18, 2016; not seasonally adjusted.

Note: Based on surveys distributed to households; not directly comparable to Industry Employment data reported in Table B-3. Items may not add to totals due to rounding.

Sources: California Employment Development Department, Labor Market Information Division for the State and County; U.S. Bureau of Labor, Department of Labor Statistics for the U.S.

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The table below summarizes the California Employment Development Department's estimated average annual employment for the County, which includes full-time and part-time workers who receive wages, salaries, commissions, tips, payment in kind, or piece rates. Separate figures for the City are not maintained. Percentages indicate the percentage of the total employment for each type of employment for the given year. For purposes of comparison, the most recent employment data for the State is also summarized.

**Table B-3**  
**Los Angeles County Estimated Industry Employment and Labor Force<sup>1</sup>**

|  | County           |               |                  |               | State of California |               |
|--|------------------|---------------|------------------|---------------|---------------------|---------------|
|  | 2000             | % of<br>Total | 2015             | % of<br>Total | 2015                | % of<br>Total |
| Agricultural                           | 7,700            | 0.2%          | 5,000            | 0.1%          | 423,300             | 2.6%          |
| Natural Resources and Mining           | 3,400            | 0.1           | 3,900            | 0.1           | 29,100              | 0.2           |
| Construction                           | 131,800          | 3.2           | 126,100          | 2.9           | 727,400             | 4.4           |
| Manufacturing                          | 615,200          | 14.9          | 360,800          | 8.4           | 1,291,900           | 7.8           |
| Trade, Transportation and<br>Utilities | 784,900          | 19.0          | 817,800          | 19.1          | 2,938,300           | 17.8          |
| Information                            | 244,300          | 5.9           | 202,700          | 4.7           | 483,000             | 2.9           |
| Financial Activities                   | 223,400          | 5.4           | 214,200          | 5.0           | 797,400             | 4.8           |
| Professional and Business<br>Services  | 590,700          | 14.3          | 600,300          | 14.0          | 2,493,800           | 15.1          |
| Educational and Health<br>Services     | 463,100          | 11.2          | 742,200          | 17.3          | 2,456,200           | 14.9          |
| Leisure and Hospitality                | 345,000          | 8.4           | 488,100          | 11.4          | 1,830,000           | 11.1          |
| Other Services                         | 140,200          | 3.4           | 151,700          | 3.5           | 545,700             | 3.3           |
| Government                             | <u>581,400</u>   | <u>14.1</u>   | <u>566,400</u>   | <u>13.2</u>   | <u>2,458,800</u>    | <u>14.9</u>   |
| Total <sup>2</sup>                     | <u>4,130,900</u> | <u>100.0%</u> | <u>4,279,200</u> | <u>100.0%</u> | <u>16,474,800</u>   | <u>100.0%</u> |

<sup>1</sup> The California Economic Development Department has converted employer records from the Standard Industrial Classification coding system to the North American Industry Classification System.

<sup>2</sup> Totals may not equal sum of parts due to independent rounding.

Note: Based on surveys distributed to employers; not directly comparable to Civilian Labor Force data reported in Table B-2.

Source: California Employment Development Department, Labor Market Information Division. Based on March 2015 Benchmark report.

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## Major Employers

The top 25 major non-governmental employers in the County are listed in the table below. The employees of these non-governmental employers represent approximately 6.5% of the labor force (based on total employment in 2015). In addition, government employment represents approximately 13.2% of the labor force (see Table B-3—Los Angeles County Estimated Industry Employment and Labor Force).

**Table B-4**  
**Los Angeles County 2015 Major Non-Governmental Employers**

| <b>Employer</b>                                  | <b>Product/Service</b>   | <b>Employees</b>    |
|--|--|---------------------|
| Kaiser Permanente                                | Nonprofit health care plan   | 35,771              |
| University of Southern California                | Private university   | 18,629              |
| Northrop Grumman Corp.                           | Defense contractor   | 17,000              |
| Target Corp.                                     | Retailer   | 15,000              |
| Ralphs/Food 4 Less (Kroger Co. Division)         | Grocery retailer   | 13,500              |
| Bank of America Corp                             | Banking and financial services   | 13,000 <sup>1</sup> |
| Providence Health & Services Southern California | Health care  | 13,000              |
| AT&T Inc.  | Telecommunications   | 11,700              |
| UPS  | Transportation and freight   | 10,768              |
| Home Depot                                       | Home improvement specialty retailer  | 10,600 <sup>1</sup> |
| Boeing Co.                                       | Integrated aerospace and defense systems   | 10,500 <sup>1</sup> |
| Cedars-Sinai Medical Center                      | Medical center   | 10,250              |
| Albertsons Nons/Pavilions                        | Retail grocer  | 10,200 <sup>1</sup> |
| Walt Disney Co.                                  | Entertainment  | 10,200 <sup>2</sup> |
| Wells Fargo                                      | Diversified financial services   | 10,000              |
| ABM Industries Inc.                              | Facilities services, energy solutions, commercial cleaning, maintenance and repair | 8,500 <sup>1</sup>  |
| California Institute of Technology               | Private university, operator of Jet Propulsion Laboratory                          | 8,100               |
| FedEx Corp.                                      | Shipping and logistics   | 7,700 <sup>1</sup>  |
| Edison International                             | Electric utility   | 7,650               |
| Warner Bros. Entertainment Inc.                  | Entertainment  | 7,400 <sup>2</sup>  |
| Universal Services of America                    | Security professionals   | 6,554               |
| Dignity Health                                   | Health care  | 6,100               |
| American Apparel Inc.                            | Apparel manufacturer and retailer  | 6,000               |
| Costco Wholesale                                 | Membership chain of warehouse stores   | 5,800               |
| SoCalGas   | Natural gas utility  | 5,6900              |

<sup>1</sup> *Business Journal* estimate.

<sup>2</sup> Information provided by City of Burbank.

Source: *Los Angeles Business Journal*, Weekly Lists, originally published August 31, 2015.

## Personal Income

The U.S. Census Bureau defines personal income as the income received by all persons from all sources, and is the sum of “net earnings,” rental income, dividend income, interest income, and transfer receipts. “Net earnings” is defined as wages and salaries, supplements to wages and salaries, and proprietors’ income, less contributions for government social insurance, before deduction of personal income and other taxes.

The following table summarizes the latest available estimate of personal income for the County, State and United States.

**Table B-5  
County, State and U.S. Personal Income**

| <b>Year and Area</b>       | <b>Personal Income<br/>(Thousands of Dollars)</b> | <b>Per Capita Personal<br/>Income<sup>1</sup><br/>(Dollars)</b> |
|----------------------------|---|---|
| 2011                       |   |   |
| County                     | \$ 441,724,254                                    | \$44,627  |
| State <sup>2</sup>         | 1,691,002,503                                     | 44,852  |
| United States <sup>2</sup> | 13,233,436,000                                    | 42,453  |
| 2012                       |   |   |
| County                     | \$ 475,931,985                                    | \$47,713  |
| State <sup>2</sup>         | 1,812,314,643                                     | 47,614  |
| United States <sup>2</sup> | 13,904,485,000                                    | 44,266  |
| 2013                       |   |   |
| County                     | \$ 478,371,346                                    | \$47,580  |
| State <sup>2</sup>         | 1,849,505,496                                     | 48,125  |
| United States <sup>2</sup> | 14,064,468,000                                    | 44,438  |
| 2014                       |   |   |
| County <sup>3</sup>        | \$ 499,767,889                                    | \$49,400  |
| State <sup>2</sup>         | 1,939,527,656                                     | 49,985  |
| United States <sup>2</sup> | 14,683,147,000                                    | 46,049  |
| 2015                       |   |   |
| County                     | n/a   | n/a   |
| State <sup>2</sup>         | \$ 2,061,337,141                                  | \$52,651  |
| United States <sup>2</sup> | 15,324,108,725                                    | 47,669  |

<sup>1</sup> Per capita personal income was computed using Census Bureau midyear population estimates. Per capita personal income is total personal income divided by total midyear population. Estimates for 2011 to 2015 reflect Census Bureau midyear State population estimates available as of December 2014. Estimates for 2015 are derived from the quarterly State population estimates produced by BEA based on unpublished Census Bureau data.

<sup>2</sup> Last updated: March 24, 2016—new estimates for 2015. In 2015 details may not add to totals because of rounding.

<sup>3</sup> Last updated: November 19, 2015.

Source: U.S. Bureau of Economic Analysis, “Table SA1 Personal Income Summary,” (accessed April 21, 2016).

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## Retail Sales

As the largest city in the County, the City accounted for \$41.7 billion (or 29.8%) of the total \$140.0 billion in County taxable sales for 2013. The following table sets forth a history of taxable sales for the City for calendar years 2009 through 2013, 2013 being the last full year for which data is currently available.

The City experienced a 4.1% increase in sales tax receipts during Fiscal Year 2014-15, estimates a 2.1% growth in Fiscal Year 2015-16 (excluding additional receipts from the restoration of the 1% local tax rate) and projects 3.0% growth in taxable sales for the Fiscal Year 2016-17 Adopted Budget.

**Table B-6**  
**City of Los Angeles Taxable Sales**  
(in thousands)

|  | <u>2009</u>         | <u>2010</u>         | <u>2011</u>         | <u>2012</u>         | <u>2013</u>         |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Motor Vehicle and Parts Dealers                | \$ 2,760,647        | \$ 2,865,868        | \$ 3,224,150        | \$ 3,662,657        | \$ 3,983,625        |
| Home Furnishings and Appliance Stores          | 1,566,716           | 1,590,667           | 1,609,905           | 1,676,926           | 1,683,805           |
| Bldg. Materials and Garden Equip. and Supplies | 1,700,820           | 1,711,735           | 1,834,117           | 1,942,915           | 2,086,608           |
| Food and Beverage Stores                       | 2,126,677           | 2,123,626           | 2,199,481           | 2,322,695           | 2,444,701           |
| Gasoline Stations                              | 3,621,498           | 4,114,016           | 4,952,984           | 5,090,496           | 4,954,380           |
| Clothing and Clothing Accessories Stores       | 2,404,735           | 2,551,905           | 2,715,953           | 2,884,984           | 3,032,886           |
| General Merchandise Stores                     | 2,448,694           | 2,534,482           | 2,660,830           | 2,759,578           | 2,873,530           |
| Food Services and Drinking Places              | 5,437,781           | 5,637,405           | 6,049,187           | 6,564,652           | 6,946,625           |
| Other Retail Group                             | <u>3,425,579</u>    | <u>3,451,919</u>    | <u>3,599,674</u>    | <u>3,716,658</u>    | <u>3,943,616</u>    |
| Total Retail and Food Services                 | <u>25,493,148</u>   | <u>26,581,623</u>   | <u>28,846,283</u>   | <u>30,621,561</u>   | <u>31,949,776</u>   |
| All Other Outlets                              | <u>8,098,716</u>    | <u>8,233,833</u>    | <u>9,011,361</u>    | <u>9,502,364</u>    | <u>9,806,938</u>    |
| Total All Outlets*                             | <u>\$33,591,864</u> | <u>\$34,815,457</u> | <u>\$37,857,643</u> | <u>\$40,123,926</u> | <u>\$41,756,714</u> |

\* Items may not add to totals due to rounding.

Source: California State Board of Equalization, Research and Statistics Division.

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## Land Use

The following table, derived from data maintained by the Los Angeles County Assessor, indicates various land uses within the City based on assessed valuation and the number of parcels.

**Table B-7  
City of Los Angeles Assessed Valuation and Parcels by Land Use**

|                                 | <b>2015-16<br/>Assessed<br/>Valuation*</b> | <b>% of Total</b> | <b>No. of<br/>Parcels</b> | <b>% of Total</b> |
|---------------------------------|--|-------------------|---------------------------|-------------------|
| <b><u>Non-Residential</u></b>   |  |                   |                           |                   |
| Commercial Office               | \$ 72,067,801,066                          | 14.97%            | 35,721                    | 4.59%             |
| Vacant Commercial               | 2,101,642,002                              | 0.44              | 1,255                     | 0.16              |
| Industrial                      | 36,527,008,296                             | 7.59              | 20,111                    | 2.58              |
| Vacant Industrial               | 1,735,544,481                              | 0.36              | 4,069                     | 0.52              |
| Recreational                    | 1,806,352,224                              | 0.38              | 780                       | 0.10              |
| Government/Social/Institutional | 3,259,017,043                              | 0.68              | 3,795                     | 0.49              |
| Miscellaneous                   | <u>386,941,983</u>                         | <u>0.08</u>       | <u>2,815</u>              | <u>0.36</u>       |
| Subtotal Non-Residential        | <u>\$117,884,307,095</u>                   | <u>24.48%</u>     | <u>68,546</u>             | <u>8.81%</u>      |
| <b><u>Residential</u></b>       |  |                   |                           |                   |
| Single Family Residence         | \$248,906,138,472                          | 50.70%            | 490,638                   | 63.03%            |
| Condominium/Townhouse           | 33,412,992,353                             | 6.94              | 86,129                    | 11.06             |
| Mobile Homes and Lots           | 108,478,933                                | 0.02              | 3,304                     | 0.42              |
| Mobile Home Park                | 164,431,429                                | 0.03              | 92                        | 0.01              |
| 2-4 Residential Units           | 25,927,464,009                             | 5.38              | 74,211                    | 9.53              |
| 5+ Residential Units/Apartments | 52,120,152,106                             | 10.83             | 34,769                    | 4.47              |
| Vacant Residential              | <u>2,955,189,311</u>                       | <u>0.61</u>       | <u>20,741</u>             | <u>2.66</u>       |
| Subtotal Residential            | <u>\$363,594,846,613</u>                   | <u>75.52%</u>     | <u>709,884</u>            | <u>91.19%</u>     |
| Total                           | <u>\$481,479,153,708</u>                   | <u>100.00%</u>    | <u>778,430</u>            | <u>100.00%</u>    |

\* Local Secured Assessed Valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

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## Residential Value and Construction Activity

The following table indicates the array of assessed valuation for residential properties in the City.

**Table B-8**  
**City of Los Angeles**  
**Per Parcel 2015-16 Assessed Valuation of Single Family Residential Properties**

|                                      | <u>No. of<br/>Parcels</u> | <u>2015-16 Assessed<br/>Valuation</u> | <u>Average Assessed<br/>Valuation</u> | <u>Median Assessed<br/>Valuation</u> |
|--------------------------------------|---------------------------|---------------------------------------|---------------------------------------|--------------------------------------|
| Single-Family Residential Properties | 490,638                   | \$248,906,138,472                     | \$507,311                             | \$327,900                            |

  

| <u>2015-16<br/>Assessed<br/>Valuation</u> | <u>No. of<br/>Residential<br/>Parcels *</u> | <u>% of<br/>Total</u> | <u>Cumulative<br/>% of Total</u> | <u>Total<br/>Valuation</u> | <u>% of<br/>Total</u> | <u>Cumulative<br/>% of Total</u> |
|---|---|-----------------------|----------------------------------|----------------------------|-----------------------|----------------------------------|
| \$0 - \$49,999                            | 10,420                                      | 2.124%                | 2.124%                           | \$ 404,118,860             | 0.162%                | 0.162%                           |
| \$50,000 - \$99,999                       | 39,817                                      | 8.115                 | 10.239                           | 3,084,384,088              | 1.239                 | 1.402                            |
| \$100,000 - \$149,999                     | 32,135                                      | 6.550                 | 16.789                           | 4,177,132,245              | 1.678                 | 3.080                            |
| \$150,000 - \$199,999                     | 41,526                                      | 8.464                 | 25.252                           | 7,686,628,704              | 3.088                 | 6.168                            |
| \$200,000 - \$249,999                     | 47,742                                      | 9.731                 | 34.983                           | 11,025,537,480             | 4.430                 | 10.597                           |
| \$250,000 - \$299,999                     | 46,054                                      | 9.387                 | 44.370                           | 12,854,684,588             | 5.164                 | 15.762                           |
| \$300,000 - \$349,999                     | 46,922                                      | 9.563                 | 53.933                           | 15,957,046,072             | 6.411                 | 22.173                           |
| \$350,000 - \$399,999                     | 41,555                                      | 8.470                 | 62.403                           | 16,201,588,065             | 6.509                 | 28.682                           |
| \$400,000 - \$449,999                     | 28,624                                      | 5.834                 | 68.237                           | 12,594,989,360             | 5.060                 | 33.742                           |
| \$450,000 - \$499,999                     | 20,871                                      | 4.254                 | 72.491                           | 10,174,341,177             | 4.088                 | 37.830                           |
| \$500,000 - \$549,999                     | 17,685                                      | 3.604                 | 76.095                           | 9,498,065,265              | 3.816                 | 41.646                           |
| \$550,000 - \$599,999                     | 14,007                                      | 2.855                 | 78.950                           | 8,212,093,995              | 3.299                 | 44.945                           |
| \$600,000 - \$649,999                     | 13,366                                      | 2.724                 | 81.674                           | 8,563,462,540              | 3.440                 | 48.385                           |
| \$650,000 - \$699,999                     | 11,899                                      | 2.425                 | 84.099                           | 8,081,146,355              | 3.247                 | 51.632                           |
| \$700,000 - \$749,999                     | 8,686                                       | 1.770                 | 85.870                           | 6,456,208,254              | 2.594                 | 54.226                           |
| \$750,000 - \$799,999                     | 8,391                                       | 1.710                 | 87.580                           | 6,613,484,124              | 2.657                 | 56.883                           |
| \$800,000 - \$849,999                     | 6,514                                       | 1.328                 | 88.908                           | 5,477,068,910              | 2.200                 | 59.083                           |
| \$850,000 - \$899,999                     | 6,367                                       | 1.298                 | 90.205                           | 6,213,529,832              | 2.496                 | 61.580                           |
| \$900,000 - \$949,999                     | 5,777                                       | 1.177                 | 91.383                           | 5,357,971,082              | 2.153                 | 63.732                           |
| \$950,000 - \$999,999                     | 4,421                                       | 0.901                 | 92.284                           | 4,313,419,386              | 1.733                 | 65.465                           |
| \$1,000,000 and greater                   | <u>37,859</u>                               | <u>7.716</u>          | 100.000                          | <u>85,959,238,090</u>      | <u>34.535</u>         | 100.000                          |
| Total                                     | 490,638                                     | 100.000%              |                                  | \$248,906,138,472          | 100.000%              |                                  |

\* Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.  
Source: California Municipal Statistics, Inc.

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The table below provides a summary of building permits issued by the City by calendar year.

**Table B-9**  
**City of Los Angeles**  
**Building Permit Valuations and New Dwelling Units**

|   | <u>2010</u>  | <u>2011</u>  | <u>2012</u>  | <u>2013</u>  | <u>2014</u>   |
|---|--------------|--------------|--------------|--------------|---------------|
| Total Valuation <sup>1</sup> (\$ in millions) | \$3,328      | \$3,386      | \$3,671      | \$4,246      | \$6,416       |
| Residential <sup>2</sup>                      | 878          | 1,131        | 1,407        | 1,732        | 2,668         |
| Miscellaneous <sup>3</sup>                    | 15           | 26           | 17           | 48           | 18            |
| Number of Units:                              |              |              |              |              |               |
| Single family <sup>4</sup>                    | 772          | 726          | 1,059        | 1,254        | 1,852         |
| Multi-family <sup>5</sup>                     | <u>3,374</u> | <u>5,258</u> | <u>5,615</u> | <u>7,136</u> | <u>9,607</u>  |
| Subtotal Residential                          | 4,146        | 5,984        | 6,674        | 8,390        | 11,459        |
| Miscellaneous <sup>6</sup>                    | <u>370</u>   | <u>390</u>   | <u>477</u>   | <u>536</u>   | <u>274</u>    |
| Total Units                                   | <u>4,516</u> | <u>6,374</u> | <u>7,151</u> | <u>8,926</u> | <u>11,733</u> |

<sup>1</sup> Represents the total valuation of all construction work for which building permits were issued.

<sup>2</sup> Valuation of permits issued for Single-Family Dwellings, Duplexes, Apartment Buildings, Hotel/Motels, and Condominiums.

<sup>3</sup> Valuation of permits issued for “Addition Creating New Units – Residential” and “Alterations Creating New Units – Residential.”

<sup>4</sup> Number of dwelling units permitted for Single-Family Dwellings and Duplexes.

<sup>5</sup> Number of dwelling units permitted for new Apartment Buildings, Hotel/Motels, and Condominiums.

<sup>6</sup> Number of dwelling units added includes “Addition Creating New Units – Residential” and “Alterations Creating New Units - Residential.”

Source: City of Los Angeles, Department of Building and Safety.

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## Commercial Real Estate Markets in Los Angeles

The following table shows the most recent information available regarding vacancy rates for commercial property in the City and the County of Los Angeles.

**Table B-10**  
**City of Los Angeles and County of Los Angeles**  
**Commercial Property Vacancy Rates**

| Year and<br>Area* | Retail | Office | Warehouse | R&D  |
|-------------------|--------|--------|-----------|------|
| 2011              |        |        |           |      |
| City              | 6.7%   | 15.9%  | 9.0%      | 8.0% |
| County            | 6.5    | 14.3   | 9.0       | 6.0  |
| 2012              |        |        |           |      |
| City              | 5.2    | 16.8   | 7.6       | 4.3  |
| County            | 6.3    | 14.4   | 8.0       | 5.6  |
| 2013              |        |        |           |      |
| City              | 4.8    | 16.4   | 6.7       | 5.4  |
| County            | 6.1    | 14.5   | 7.7       | 5.1  |
| 2014              |        |        |           |      |
| City              | 4.2    | 16.5   | 6.1       | 4.0  |
| County            | 6.1    | 13.6   | 6.6       | 3.7  |
| 2015              |        |        |           |      |
| City              | 4.0    | 15.1   | 5.7       | 2.9  |
| County            | 6.5    | 13.4   | 6.1       | 2.4  |

\* Fourth quarter of each year.

Source: Beacon Economics and REIS.

## Education

The Los Angeles Unified School District (“LAUSD”) administers public instruction for kindergarten through 12<sup>th</sup> grade (“K-12”), adult, and occupational schools in the City and all or significant portions of a number of smaller neighboring cities and unincorporated areas. The LAUSD, which now encompasses approximately 710 square miles (making it significantly larger than the City at 470 square miles), was formed in 1854 as the Common Schools for the City of Los Angeles, and became a unified school district in 1960. The LAUSD is governed by a seven-member Board of Education, elected by district to serve alternating four-year terms.

There are many public and private colleges and universities located in the City. Major colleges and universities located within the City include the University of California at Los Angeles, the University of Southern California, California State University at Los Angeles, California State University at Northridge, Occidental College and Loyola Marymount University. There are seven community colleges located within the Los Angeles Community College District.

## GENERAL INFORMATION REGARDING MUNICIPAL GOVERNMENT

Under the State Constitution, charter cities are generally independent of the State Legislature in matters relating to municipal affairs. Charter cities, however, are subject to State Constitutional

restrictions. The City is a charter city originally incorporated in 1850. The most recent charter was adopted in 1999, effective July 1, 2000, and has been amended a number of times by voter approval.

The City is governed by the Mayor and the City Council (the “City Council”). The Mayor is elected at-large for a four-year term. As executive officer of the City, the Mayor has the overall responsibility for administration of the City. The Mayor recommends and submits the annual budget to the Council and passes upon subsequent appropriations and transfers, approves or vetoes ordinances, and appoints certain City officials and commissioners. He supervises the administrative process of local government and works with the Council in matters relating to legislation, budget, and finance. As prescribed by the Charter and City ordinances, the Mayor operates an executive department, of which he is the *ex-officio* head. The current Mayor, Eric Garcetti, assumed office on July 1, 2013.

The Council, the legislative body of the City, is a full time council and enacts ordinances subject to the approval of the Mayor. If the Mayor vetoes, the Council may override the veto of the Mayor by a two-thirds vote. The Council orders elections, levies taxes, authorizes public improvements, approves contracts, adopts zoning and other land use controls, and adopts traffic regulations. The Council adopts or modifies the budget proposed by the Mayor. It authorizes the number of employees in budgetary departments, creates positions and fixes salaries. The Council consists of 15 members elected by district for staggered four-year terms.

The other two elective offices of the City are the Controller and the City Attorney, both elected for four-year terms. The Controller is the chief accounting officer for the City. The current Controller, Ron Galperin, assumed office on July 1, 2013.

The City Attorney is attorney and legal advisor to the City and to all City boards, departments, officers, and entities, and prosecutes misdemeanors and violations of the Charter and City ordinances. The current City Attorney, Mike Feuer, assumed office on July 1, 2013.

All citywide elected officials of the City are subject to term limits of two four-year terms, while Council members are subject to terms limits of three four-year terms.

The City Administrative Officer (“CAO”) is the chief fiscal advisor to the Mayor and Council and reports directly to both. The CAO is appointed by the Mayor, subject to Council confirmation, Miguel A. Santana has been serving as CAO since August 2009.

The City Treasurer (the “Treasurer”) receives, invests and is the custodian of the City’s funds and those of affiliated entities. The Treasurer also serves as the City’s Investment Officer. The Treasurer is appointed by the Mayor and confirmed by the Council. On July 1, 2011, the Office of the Treasurer was consolidated into the Office of Finance. Claire Bartels, the Director of Finance, also serves as the City Treasurer.

The City has 36 departments and bureaus for which operating funds are annually budgeted by the Council. In addition, four departments (the Department of Water and Power (“DWP”), the Harbor Department, the Department of Airports, and the Housing Authority of the City) are under the control of boards appointed by the Mayor and confirmed by the Council. The City obtains water and electricity from DWP, the largest municipally-owned utility in the nation. Two departments, the Los Angeles City Employees’ Retirement System and the Fire and Police Pension System, are under the control of boards whose membership is comprised of Mayoral appointees and representatives elected by system members.

Public services provided by the City include police; fire and paramedics; residential refuse collection and disposal, wastewater collection and treatment, street maintenance, traffic management,

storm water pollution abatement, and other public works functions; enforcement of ordinances and statutes relating to building safety; public libraries; recreation and parks; community development; housing and aging services; and planning.

## **SELECTED INFORMATION REGARDING THE CITY'S RETIREMENT AND PENSION SYSTEMS AND OTHER POST-EMPLOYMENT BENEFITS**

### **General**

The City contributes to three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees' Retirement System ("LACERS"), the City of Los Angeles Fire and Police Pension Plan ("FPPP"), and for the employees of the DWP, the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (the "Water and Power Plan").

Both LACERS and FPPP (collectively, the "Pension Systems") provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. Both systems are funded primarily from the City's General Fund. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's contribution rates for such years. The City generally makes its actuarially determined Annual Required Contribution ("ARC"), although phasing-in of assumption changes has resulted in a small net pension obligation for fiscal years ended June 30, 2004 and 2005.

The Pension Systems' annual valuations determine the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability ("UAAL"). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the accrued costs attributable to currently active, vested former members and retired employees and their beneficiaries. In addition, various actuarial assumptions are used in the valuation process, including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities calculated based on the assumptions. The contribution rates in the following year's valuations are adjusted to take into account actual performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of assets for determining the UAAL, many pension plans, including the Pension Systems, "smooth" market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial value of assets that are lower or higher than the market value of assets. As discussed below, both systems amended their smoothing methodologies to address extraordinary losses or gains in the market value of assets.

Both Pension Systems have adopted asset allocation plans to guide their investments in stocks, bonds, real estate, alternatives and cash equivalents over a three- to five-year period. The asset

allocations of the Pension Systems are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the table below. Any return below the actuarial assumed rate of return (currently 7.5% for both of the Pension Systems) represents an actuarial investment loss, while any return above the assumed rate of return represents an actuarial investment gain.

**Table B-11**  
**Los Angeles Pension Systems**  
**Historical Market Value Investment Returns**

| Fiscal Year | LACERS | FPPP   |
|-------------|--------|--------|
| 2005-06     | 12.4%  | 12.5%  |
| 2006-07     | 19.5   | 18.5   |
| 2007-08     | (5.7)  | (4.6)  |
| 2008-09     | (19.5) | (20.0) |
| 2009-10     | 12.9   | 13.9   |
| 2010-11     | 22.6   | 22.1   |
| 2011-12     | 1.1    | 1.9    |
| 2012-13     | 14.3   | 13.0   |
| 2013-14     | 18.4   | 17.9   |
| 2014-15     | 2.8    | 4.2    |

Source: City of Los Angeles, the respective Pension Systems.

The City has never issued pension obligation bonds to fund either of its Pension Systems. The City does pre-pay its annual contributions out of the proceeds of its annual issuance of tax and revenue anticipation notes.

This section, “**Selected Information Regarding the City’s Retirement and Pension Systems and other Post-Employment Benefits,**” and the subsequent section, “**Other Post-Employment Benefits,**” contain certain information relating to LACERS and FPPP. The information contained in these sections is primarily derived from information produced by LACERS and FPPP and their independent accountants and their actuaries. The City has not independently verified the information provided by LACERS and FPPP. The comprehensive annual financial reports, actuarial valuations for retirement and health benefits, and other information concerning LACERS and FPPP are available on their websites. Such information is not incorporated by reference herein. For additional information regarding the Pension Systems, see the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL for retirement and other benefits, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is “forward looking” information. Such “forward looking” information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the value of future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

**Los Angeles City Employees’ Retirement System (“LACERS”)**

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and

Power. As of June 30, 2015, the date of its most recent actuarial valuation, LACERS had 23,895 active members, 17,932 retired members and beneficiaries, and 6,507 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City’s Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer’s payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS’ actuary, The Segal Company, in preparing LACERS’ actuarial report as of June 30, 2015.

**Table B-12**  
**Los Angeles City Employees’ Retirement System**  
**Actuarial Assumptions**  
**As of June 30, 2015**

|   |   |
|---|---|
| Investment rate of return                 | 7.50%                                       |
| Inflation rate                            | 3.25%                                       |
| Real across-the-board salary increase     | 0.75%                                       |
| Projected salary increases                | Ranges from 4.4% to 10.5%, based on service |
| Cost of living adjustments for pensioners | 3.00% for Tier 1; 2.00% for Tier 2          |

Source: Los Angeles City Employees’ Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

Based on the results of its most recent triennial experience study dated October 8, 2014 for the three-year period from July 1, 2011 through June 30, 2014, LACERS adopted new actuarial assumptions, including a reduced assumed investment return from 7.75% to 7.50% and reducing the inflation rate from 3.50% to 3.25%.

As of June 30, 2010, the LACERS’ Board adopted a market value corridor of 40%. A “corridor” is used in conjunction with asset smoothing, in order to keep the actuarial value of assets within a certain percentage of the market value of assets. For example, if a system has a 40% corridor, the actuarial value of assets must be between 60% and 140% of the market value of assets. Market losses and gains are recognized under a seven-year asset smoothing period, where only 1/7 of annual market gains or losses are recognized in the actuarial value of assets each year. The remaining gains or losses are spread equally over the next six years.

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As of June 30, 2015, there was a total unrecognized net gain of \$229 million. To limit future fluctuations in asset values due to large unrecognized gains reflecting several years of fairly large annual market gains and losses from a volatile market, the LACERS Board adopted a one-time adjustment, as of June 30, 2014, to its current asset smoothing policy by combining the unrecognized gains and losses of the prior years into one layer and spreading it evenly over six years. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2015.

**Table B-13**  
**Los Angeles City Employees' Retirement System**  
**Calculation of Unrecognized Return Due to Asset Smoothing**  
**As of June 30, 2015**

| <b>Year Ended<br/>June 30</b>    | <b>Original Market Gain<br/>(Loss)</b> | <b>Percent Not<br/>Recognized</b> | <b>Amount Not<br/>Recognized</b> |
|----------------------------------|--|-----------------------------------|----------------------------------|
| 2015                             | \$ (707,760,540)                       | 6/7                               | \$(606,651,891)                  |
| 2014                             | 1,246,285,581                          | 5/7                               | 890,203,986                      |
| 2013                             | (81,571,421)                           | 4/6                               | (54,380,947) *                   |
| Total unrecognized return (loss) |  |                                   | \$229,171,148                    |

\* Valuation as of June 30, 2014 recognizes 2/6 of \$81,571,421 original market loss as of June 30, 2013, with the balance to be recognized over the next four years.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 or 20 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over five years, other benefit changes will be amortized over 15 years. Effective for the June 30, 2012 valuation, most existing liabilities on or before June 30, 2012 were combined under one layer and amortized over 30 years. The LACERS Board implemented this revised amortization policy to mitigate the impact of the change in funding policy from the Projected Unit Credit cost method to Entry Age Normal cost method.

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The table below shows the actuarial value of the City’s liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll.

**Table B-14**  
**Los Angeles City Employees’ Retirement System**  
**Schedule of Funding Progress for Retirement Benefits**  
**Actuarial Value Basis**  
**(Dollars in Thousands)<sup>1</sup>**

| <b>Actuarial Valuation As of June 30</b> | <b>Actuarial Value of Assets</b> | <b>Actuarial Accrued Liability (AAL)</b> | <b>Unfunded AAL<sup>2</sup></b> | <b>Funded Ratio<sup>3</sup></b> | <b>Covered Payroll<sup>4</sup></b> | <b>Unfunded AAL As a Percentage of Covered Payroll<sup>5</sup></b> |
|--|----------------------------------|--|---------------------------------|---------------------------------|------------------------------------|--|
| 2006                                     | \$ 7,674,999                     | \$ 9,870,662                             | \$ 2,195,663                    | 77.8%                           | \$ 1,733,340                       | 126.7%   |
| 2007                                     | 8,599,700 <sup>6</sup>           | 10,526,874                               | 1,927,174                       | 81.7                            | 1,896,609                          | 101.6  |
| 2008                                     | 9,438,318                        | 11,186,404                               | 1,748,085                       | 84.4                            | 1,977,645                          | 88.4   |
| 2009                                     | 9,577,747                        | 12,041,984                               | 2,464,237                       | 79.5                            | 1,816,171                          | 135.7  |
| 2010                                     | 9,554,027                        | 12,595,025                               | 3,040,998                       | 75.9                            | 1,817,662                          | 167.3  |
| 2011                                     | 9,691,011                        | 13,391,704                               | 3,700,693                       | 72.4                            | 1,833,392                          | 201.9  |
| 2012                                     | 9,934,959                        | 14,393,959                               | 4,458,999                       | 69.0                            | 1,819,270                          | 245.1  |
| 2013                                     | 10,223,961                       | 14,881,663                               | 4,657,702                       | 68.7                            | 1,846,970                          | 252.2  |
| 2014                                     | 10,944,751                       | 16,248,853                               | 5,304,103                       | 67.4                            | 1,898,064                          | 279.5  |
| 2015                                     | 11,727,161                       | 16,909,996                               | 5,182,835                       | 69.4                            | 1,907,665                          | 271.7  |

<sup>1</sup> Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.

<sup>2</sup> Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.

<sup>3</sup> Actuarial value of assets divided by actuarial accrued liability.

<sup>4</sup> Annual payroll for members of LACERS.

<sup>5</sup> UAAL divided by covered payroll.

<sup>6</sup> Valuation value of assets is after excluding \$5,269,481 of discounted Harbor Port Police assets transferred to FPPP in October 2007.

Source: Los Angeles City Employees’ Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

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The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over a number of years. The following table shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

**Table B-15**  
**Los Angeles City Employees' Retirement System**  
**Schedule of Funding Progress For Retirement Benefits**  
**Market Value Basis**  
**(Dollars in Thousands)<sup>1</sup>**

| <b>Actuarial Valuation As of June 30</b> | <b>Market Value of Assets</b> | <b>Actuarial Accrued Liability (AAL)</b> | <b>Unfunded Liability<sup>2</sup></b> | <b>Funded Ratio (Market Value)<sup>3</sup></b> | <b>Covered Payroll<sup>4</sup></b> | <b>Unfunded Liability As a Percentage of Covered Payroll (Market Value)<sup>5</sup></b> |
|--|-------------------------------|--|---------------------------------------|--|------------------------------------|---|
| 2006                                     | \$ 8,204,603                  | \$ 9,870,662                             | \$ 1,666,059                          | 83.1%  | \$ 1,733,340                       | 96.1%   |
| 2007                                     | 9,708,718                     | 10,526,874                               | 818,156                               | 92.2   | 1,896,609                          | 43.1  |
| 2008                                     | 9,059,551                     | 11,186,404                               | 2,126,853                             | 81.0   | 1,977,645                          | 107.5   |
| 2009                                     | 7,122,911                     | 12,041,984                               | 4,919,073                             | 59.2   | 1,816,171                          | 270.9   |
| 2010                                     | 7,804,223                     | 12,595,025                               | 4,790,802                             | 62.0   | 1,817,662                          | 263.6   |
| 2011                                     | 9,186,697                     | 13,391,704                               | 4,205,007                             | 68.6   | 1,833,392                          | 229.4   |
| 2012                                     | 9,058,839                     | 14,393,959                               | 5,335,120                             | 62.9   | 1,819,270                          | 293.3   |
| 2013                                     | 10,154,486                    | 14,881,663                               | 4,727,177                             | 68.2   | 1,736,113                          | 272.3   |
| 2014                                     | 11,791,079                    | 16,248,853                               | 4,457,774                             | 72.6   | 1,802,931                          | 247.3   |
| 2015                                     | 11,920,570                    | 16,909,996                               | 4,989,426                             | 70.5   | 1,835,637                          | 261.5   |

<sup>1</sup> Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.

<sup>2</sup> Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.

<sup>3</sup> Market value of assets divided by actuarial accrued liability.

<sup>4</sup> Annual payroll for members of LACERS.

<sup>5</sup> Unfunded liability divided by covered payroll.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation reports.

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The table below summarizes the City’s payments to LACERS over the past five years, including the proposed payment for Fiscal Year 2016-17 pending City Council approval. This table includes costs for retirement, as well as for retiree health care, and other miscellaneous benefits.

**Table B-16**  
**Los Angeles City Employees’ Retirement System**  
**Sources and Uses of Contributions**  
**(Dollars in Thousands)<sup>1</sup>**

|   | 2012-13 <sup>2</sup> | 2013-14          | 2014-15          | 2015-16          | Adopted Budget<br>2016-17 |
|---|----------------------|------------------|------------------|------------------|---------------------------|
| Sources of Contributions                      |                      |                  |                  |                  |                           |
| Contributions for Council-controlled          |                      |                  |                  |                  |                           |
| Departments                                   | \$342,188            | \$367,772        | \$411,509        | \$434,639        | \$459,400                 |
| Airport, Harbor Departments, LACERS,<br>LAFPP | <u>77,917</u>        | <u>83,759</u>    | <u>94,209</u>    | <u>103,120</u>   | <u>106,457</u>            |
| Total   | <u>\$420,105</u>     | <u>\$451,531</u> | <u>\$505,718</u> | <u>\$537,759</u> | <u>\$565,857</u>          |
| Percent of payroll – Tier 1                   | 24.14%               | 25.33%           | 26.56%           | 28.75%           | 28.16%                    |
| Percent of payroll – Tier 2                   |                      | 18.32%           | 19.63%           | 22.62%           |                           |
| Percent of payroll – Tier 3                   |                      |                  |                  |                  | 24.96%                    |
| Uses of Contributions                         |                      |                  |                  |                  |                           |
| Current Service Liability (Normal cost)       | \$184,202            | \$185,217        | \$193,769        | \$190,777        | \$206,870                 |
| UAAL  | 234,896              | 265,081          | 305,891          | 363,929          | 365,975                   |
| Adjustments <sup>3,4,5,6</sup>                | <u>1,007</u>         | <u>1,233</u>     | <u>6,058</u>     | <u>(16,947)</u>  | <u>(6,988)</u>            |
| Total   | <u>\$420,105</u>     | <u>\$451,531</u> | <u>\$505,718</u> | <u>\$537,759</u> | <u>\$565,857</u>          |

<sup>1</sup> Includes funding for OPEB.

<sup>2</sup> A \$3.7 million credit from 2011-12 was applied to 2012-13. The actual amount paid for City Council-controlled departments, Airports, and Harbor to LACERS subsequent to this credit was \$416.4 million.

<sup>3</sup> Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.

<sup>4</sup> Payment for a 2013-14 true-up in the amount of \$5,191,511 (all agencies) will be made in 2014-15.

<sup>5</sup> Adjustments for 2015-16 include the 2014-15 true-up which consists of an \$18,052,498 credit (all agencies) which is partially offset by \$1,105,000 in excess benefit, family death and limited term plan costs.

<sup>6</sup> Adjustments for 2016-17 include the 2015-16 true-up which consists of a \$24,031,072 credit (all agencies) which is partially offset by a \$15,854,076 one-time lump sum payment for the retroactive upgrade of past Tier 2 members to Tier 1 and \$1,189,000 in excess benefit, family death and limited term plan costs.

Source: City of Los Angeles, Office of the City Administrative Officer.

Beginning with the Fiscal Year 2009-10 Adopted Budget, the City has successfully implemented various savings measures to reduce retirement costs, including increasing active member pension contributions from 7% to 11% to help defray the costs of retiree healthcare, freezing retiree health care subsidies for noncontributing employees, deferring cost-of-living adjustments, and reducing the size of the civilian workforce by 5,300 positions. Although such measures were significant in helping to ameliorate the City’s fiscal difficulties, the City determined that implementation of a new civilian retirement tier was necessary to further reduce future costs.

In late 2012, the City Council adopted a new civilian retirement tier (“Tier 2”), which applied to all employees hired on or after July 1, 2013. On July 28, 2014, the City Employee Relations Board ruled that the City’s unilateral action in creating the new civilian retirement tier did not meet the City’s meet and confer obligations. The Board ordered that the City rescind the implementation of the new retirement tier, reinstate the status quo ante, and meet and confer in good faith with labor representatives from

affected bargaining units. The City subsequently filed an appeal of the ruling in State court and entered into a mandatory settlement conference phase. As a part of the agreement with the Coalition of Los Angeles City Unions, both the City and the Coalition have agreed to dismiss with prejudice all legal actions. All members of Tier 2 were transferred into Tier 1 effective February 21, 2016. Any new employee hired into a position eligible for LACERS members on or after February 21, 2016 will, unless eligible for Tier 1 membership under specific exemptions, be enrolled in a new Tier 3.

Tier 3 benefits are as follows. Normal retirement age for unreduced benefits is either age 60 with 30 years of service with a 2% retirement factor, or age 60 with 10 years of service with a 1.5% retirement factor. Tier 3 also provides for an enhanced retirement age of 63 with 30 years of service with a 2.1% retirement factor, or age 63 with 10 years of service with a 2% retirement factor. Tier 3 also provides for early retirement prior to age 60 for employees with 30 years of service with a 2% retirement factor. Benefits are unreduced for early retirement between ages 55-59, while the reduction is 10.5% at age 54 and 3% for each year of retirement before age 54. All required years of service include 5 years of continuous service. Tier 3 final compensation is based on the employee's highest 36-month average compensation. Tier 3 benefits, including the enhanced retirement factor, are subject to a maximum of 80% of final compensation. Tier 3 members will vest retiree health benefits in exchange for a 4% salary contribution, which will be subject to future negotiations. Employees will also contribute 7% toward their pension benefits. In total, employees will contribute 11% of their salary for retirement benefits.

In light of the agreement with the Coalition, approximately 3,501 employees hired between July 1, 2013 and February 20, 2016, who were previously in Tier 2, were transferred to Tier 1 at the City's expense. The cost to the City as determined by the LACERS actuary is \$15.85 million as of July 15, 2016. These costs are expected to be settled as part of the 2016-17 payment to LACERS on July 15, 2016.

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The following table sets forth LACERS' investments and asset allocation targets.

**Table B-17**  
**Los Angeles City Employees' Retirement System**  
**Asset Class Market Value and Allocation**  
**As of December 31, 2015**  
**(Dollars in Billions)**

| <u>Asset Class</u>     | <u>Market Value</u> | <u>Market Value to<br/>Total Fund (%)</u> | <u>Target to<br/>Total Fund (%)</u> |
|------------------------|---------------------|---|-------------------------------------|
| U.S. Equity            | \$ 3,679,000        | 26.3%                                     | 24.0%                               |
| Non-U.S. Equity        | 4,008,000           | 28.7                                      | 29.0                                |
| Core Fixed Income Sec. | 2,675,000           | 19.2                                      | 19.0                                |
| Credit Opportunities   | 639,000             | 4.6                                       | 5.0                                 |
| Real Assets            | 1,368,000           | 9.8                                       | 10.0                                |
| Private Equity         | 1,384,000           | 9.9                                       | 12.0                                |
| Cash                   | <u>210,000</u>      | <u>1.5</u>                                | <u>1.0</u>                          |
| Total Portfolio        | \$13,962,000        | 100.0%                                    | 100.0%                              |

Source: LACERS Portfolio Performance Review for the Quarter Ending December 31, 2015.

#### **Fire and Police Pension Plan ("FPPP")**

The FPPP, established in 1899 and incorporated into the Charter in 1923, represents contributory plans covering uniformed fire, police, and certain port police (sworn) personnel. As of June 30, 2015, the date of its most recent actuarial valuation, the FPPP had 13,068 active members, 12,593 retired members and beneficiaries, and 112 vested former members. The FPPP is funded pursuant to the Entry Age Normal Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

Within the FPPP, there is a Deferred Retirement Option Plan ("DROP"). This voluntary plan allows members to retire for pension purposes only, after they are eligible to retire and have completed at least 25 years of service. A member entering DROP continues to work and receive salary and benefits as an active employee, but stops accruing additional salary and service credits for retirement purposes. While in DROP, the member's retirement benefit is deposited into an interest-bearing account that is distributed to the member when he or she leaves City service. Participation in DROP is limited to a maximum of five years. As of June 30, 2015, 1,359 active members participated in DROP.

Six tiers of benefits are provided, depending on the date of the member's hiring. For Tier 1, any UAAL is amortized over a fixed term ending on June 30, 2037. For Tiers 2, 3, and 4, level percent of payroll amortization with multiple layers is used as a percent of total valuation payroll from the respective employer (i.e., City or Harbor Port Police). For Tiers 5 and 6, level percent of payroll with multiple layers is used as a percent of combined payroll for these tiers from the respective employer. A Charter amendment adopted by City voters on March 8, 2011 provides the FPPP Board with greater flexibility to establish amortization policies. Under the FPPP Board's actuarial funding policy, adopted in September 2012, actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 25 years; plan amendments are amortized over 15 years; and actuarial funding surpluses are amortized over 30 years. That same Charter amendment created a new tier of retirement benefits (Tier 6) for sworn employees hired after July 1, 2011.

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by the FPPP actuary, The Segal Company, in preparing FPPP's actuarial report.

**Table B-18**  
**Los Angeles Fire and Police Pension Plan**  
**Actuarial Assumptions**  
**As of June 30, 2015**

|   |  |
|---|--|
| Investment rate of return               | 7.50%  |
| Inflation rate                          | 3.25%  |
| Real across-the-board salary increase   | 0.75%  |
| Projected salary increases              | Ranges from 4.75% to 11.50% based on service               |
| Cost of living adjustments (pensioners) | 3.25% for Tiers 1 and 2 and 3.00% for Tiers 3, 4, 5 and 6. |

Source: LAFPPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2015.

Based on the results of its most recent triennial experience study covering July 1, 2010 through June 30, 2013, the FPPP Board lowered the system's investment return assumption from 7.75% to 7.50%, and also lowered various inflation and salary increase assumptions. The cumulative effect of these changes resulted in an increase in the City's contribution rate of less than 1%.

Similar to LACERS, FPPP has adopted various asset smoothing methods. Generally, market gains or losses are recognized over seven years, so that approximately 1/7 of market losses or gains are recognized each year in the actuarial valuation. Effective July 1, 2008, FPPP adopted a 40% market corridor, so that the actuarial value of assets must be between 60% and 140% of the market value of assets. If the actuarial value falls below 60% or rises above 140%, the system must recognize the excess returns or losses in that year without smoothing. Based on its actuary's recommendation, the FPPP also adopted an ad hoc adjustment, effective July 1, 2013, combining deferred gain and loss layers representing a net deferred investment gain of \$77.3 million as of June 30, 2013 into a single six-year smoothing layer in to order to reduce year-to-year contribution rate volatility, similar to the adjustment adopted by LACERS.

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The following table shows unrecognized gains and losses as of June 30, 2015 for retirement and health subsidy benefits. As of the valuation date, approximately \$623 million of net investment return was being deferred.

**Table B-19**  
**Los Angeles Fire and Police Pension Plan**  
**Calculation of Unrecognized Return**  
**As of June 30, 2015**

|   | <u>Original<br/>Market Gain<br/>(Loss)</u> | <u>Portion<br/>Not<br/>Recognized</u> | <u>Amount<br/>Not<br/>Recognized</u> |
|---|--|---------------------------------------|--------------------------------------|
| Market value of assets (for Retirement and Health Subsidy Benefits) |  |                                       |                                      |
| Unrecognized return for year ended June 30, 2015                    | \$ (643,447,599)                           | 6/7                                   | \$ (551,526,513)                     |
| Unrecognized return for year ended June 30, 2014                    | 1,571,818,656                              | 5/7                                   | 1,122,727,611                        |
| Combined Net Deferred Gain as of June 30, 2013*                     | 77,259,408                                 | 4/6                                   | <u>51,506,272</u>                    |
| Total unrecognized return   |  |                                       | \$622,707,370                        |
| Deferred return recognized in each of the next 6 years              |  |                                       |                                      |
| Amount recognized on June 30, 2016                                  |  |                                       | 145,501,004                          |
| Amount recognized on June 30, 2017                                  |  |                                       | 145,501,004                          |
| Amount recognized on June 30, 2018                                  |  |                                       | 145,501,004                          |
| Amount recognized on June 30, 2019                                  |  |                                       | 145,501,004                          |
| Amount recognized on June 30, 2020                                  |  |                                       | 132,624,437                          |
| Amount recognized on June 30, 2021                                  |  |                                       | <u>(91,921,083)</u>                  |
| Subtotal  |  |                                       | \$ 622,707,370                       |

\* Net deferred unrecognized investment gains as of June 30, 2013 have been combined into a single layer to be recognized over the six-year period effective July 1, 2013.

Source: LAFPPP Actuarial Valuation and Review of Pension and Other Post-employment Benefits (OPEB) as of June 30, 2015.

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The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for FPPP, the funded ratio and the ratio of UAAL to annual payroll.

**Table B-20**  
**Los Angeles Fire and Police Pension Plan**  
**Schedule of Funding Progress For Retirement Benefits**  
**Actuarial Value Basis**  
**(Dollars in Thousands)<sup>1</sup>**

| Actuarial<br>Valuation<br>As of June 30 | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL <sup>2</sup> | Funded<br>Ratio <sup>3</sup> | Covered<br>Payroll <sup>4</sup> | Unfunded<br>AAL As a<br>Percentage of<br>Covered<br>Payroll <sup>5</sup> |
|---|---------------------------------|--|------------------------------|------------------------------|---------------------------------|--|
| 2006                                    | \$12,121,403                    | \$12,811,384                               | \$ 689,981                   | 94.6%                        | \$1,092,815                     | 63.1%  |
| 2007                                    | 13,215,668                      | 13,324,089                                 | 108,421                      | 99.2                         | 1,135,592                       | 9.5  |
| 2008                                    | 14,153,296                      | 14,279,116                                 | 125,820                      | 99.1                         | 1,206,589                       | 10.4   |
| 2009                                    | 14,256,611                      | 14,817,146                                 | 560,535                      | 96.2                         | 1,357,249                       | 41.3   |
| 2010                                    | 14,219,581                      | 15,520,625                                 | 1,301,044                    | 91.6                         | 1,356,986                       | 95.9   |
| 2011                                    | 14,337,669                      | 16,616,476                                 | 2,278,807                    | 86.3                         | 1,343,963                       | 169.6  |
| 2012                                    | 14,251,913                      | 17,030,833                                 | 2,778,920                    | 83.7                         | 1,341,914                       | 207.1  |
| 2013                                    | 14,657,713                      | 17,632,425                                 | 2,974,712                    | 83.1                         | 1,367,237                       | 217.6  |
| 2014                                    | 15,678,480                      | 18,114,229                                 | 2,435,749                    | 86.6                         | 1,402,715                       | 173.6  |
| 2015                                    | 16,770,060                      | 18,337,507                                 | 1,567,447                    | 91.5                         | 1,405,171                       | 111.5  |

<sup>1</sup> Table includes funding for retirement benefits only. Other post-employment benefits not included.

<sup>2</sup> Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

<sup>3</sup> Actuarial value of assets divided by actuarial accrued liability.

<sup>4</sup> Annual payroll against which UAAL amortized.

<sup>5</sup> UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations

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Investment gains and losses are recognized on an actuarial basis over a seven-year period. The following table shows the funding progress of FPPP based on the market value of the portion of system assets allocated to retirement benefits.

**Table B-21**  
**Los Angeles Fire and Police Pension Plan**  
**Schedule of Funding Progress For Retirement Benefits**  
**Market Value Basis**  
**(Dollars in Thousands)<sup>1</sup>**

| Actuarial<br>Valuation As<br>of June 30 | Market<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>(Overfunded)<br>Liability <sup>2</sup> | Funded<br>Ratio<br>(Market<br>Value) <sup>3</sup> | Covered<br>Payroll <sup>4</sup> | Unfunded<br>Liability As<br>a Percentage<br>of Covered<br>Payroll<br>(Market<br>Value) <sup>5</sup> |
|---|------------------------------|--|--|---|---------------------------------|---|
| 2006                                    | \$12,854,086                 | \$12,811,384                               | (42,702)   | 100.3%  | \$1,092,815                     | (3.9)%  |
| 2007                                    | 14,766,110                   | 13,324,089                                 | (1,442,021)  | 110.8   | 1,135,592                       | (0.1)   |
| 2008                                    | 13,622,037                   | 14,279,116                                 | 657,079  | 95.4  | 1,206,589                       | 54.5  |
| 2009                                    | 10,379,786                   | 14,817,146                                 | 4,437,360  | 70.1  | 1,357,249                       | 326.9   |
| 2010                                    | 11,535,936                   | 15,520,625                                 | 3,984,688  | 74.3  | 1,356,986                       | 293.6   |
| 2011                                    | 13,564,904                   | 16,616,476                                 | 3,051,572  | 81.6  | 1,343,963                       | 227.1   |
| 2012                                    | 13,268,687                   | 17,030,833                                 | 3,762,146  | 77.9  | 1,341,914                       | 280.4   |
| 2013                                    | 14,729,976                   | 17,632,425                                 | 2,902,449  | 83.5  | 1,367,237                       | 212.3   |
| 2014                                    | 16,989,705                   | 18,114,229                                 | 1,124,525  | 93.8  | 1,402,715                       | 80.2  |
| 2015                                    | 17,346,554                   | 18,337,507                                 | 990,953  | 94.6  | 1,405,171                       | 70.5  |

<sup>1</sup> Table includes funding for retirement benefits only. Other post-employment benefits not included.

<sup>2</sup> Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a deficit.

<sup>3</sup> Market value of assets divided by actuarial accrued liability.

<sup>4</sup> Annual payroll against which liability is amortized.

<sup>5</sup> UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

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The table below summarizes the General Fund's payments to FPPP over the past five fiscal years. This table includes costs for retirement, retiree health care, and other miscellaneous benefits.

**Table B-22**  
**Los Angeles Fire and Police Pension Plan**  
**Sources and Uses of Contributions**  
**(Dollars in Thousands)**

|                                     | <b>2012-13</b>          | <b>2013-14</b>          | <b>2014-15</b>          | <b>2015-16</b>          | <b>Adopted Budget<br/>2016-17</b> |
|-------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------------------|
| General Fund                        | \$506,086               | \$575,941               | \$624,974               | \$623,415               | \$616,235                         |
| Percent of Payroll                  | 39.94%                  | 44.40%                  | 47.94%                  | 46.51%                  | 44.54%                            |
| Current Service Liability           | \$214,223               | \$302,040               | \$306,625               | \$306,841               | \$319,458                         |
| UAAL/(Surplus)                      | 291,863                 | 273,901                 | 318,349                 | 303,580                 | 283,355                           |
| Administrative Costs <sup>1,2</sup> | -                       | -                       | -                       | <u>12,994</u>           | <u>13,422</u>                     |
| <b>Total</b>                        | <u><b>\$506,086</b></u> | <u><b>\$575,941</b></u> | <u><b>\$624,974</b></u> | <u><b>\$623,415</b></u> | <u><b>\$616,235</b></u>           |

<sup>1</sup> Beginning in 2015-16, administrative expenses are separately identified in the contribution rate in conjunction with Governmental Accounting Standards Board (GASB 67) reporting. These costs are inclusive of Health and Pension administrative costs.

<sup>2</sup> Effective FY 2010-11, the Excess Benefit Plan costs are now credited as part of the Annual Required Contribution (i.e., the costs are included in the contribution rate).

Source: City of Los Angeles, Office of the City Administrative Officer.

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The following table sets forth the FPPP’s investments and asset allocation targets as of March 31, 2016.

**Table B-23**  
**Los Angeles Fire and Police Pension Plan**  
**Asset Class by Market Value and Allocation**  
**As of March 31, 2016**  
**(Dollars in Millions)**

|                                 | <u>Market Value</u> | <u>Cash Market Allocation</u> | <u>Current Target</u> |
|---------------------------------|---------------------|-------------------------------|-----------------------|
| Domestic Large Cap Equity       | \$ 4,698.8          | 25.51%                        | 23.0%                 |
| Domestic Small Cap Equity       | 1,160.2             | 6.30                          | 6.0                   |
| International Developed Markets | 2,913.9             | 15.82                         | 16.0                  |
| International Emerging Markets  | 723.1               | 3.93                          | 5.0                   |
| Domestic Bonds                  | 3,287.3             | 17.85                         | 19.0                  |
| High Yield Bonds                | 488.7               | 2.65                          | 3.0                   |
| Unconstrained Fixed Income      | 372.6               | 2.02                          | 2.0                   |
| Real Estate                     | 1,999.8             | 10.86                         | 10.0                  |
| Private Equity                  | 1,663.6             | 9.03                          | 10.0                  |
| Commodities                     | 654.9               | 3.56                          | 5.0                   |
| Cash House Accounts             | <u>453.2</u>        | <u>2.46</u>                   | <u>1.0</u>            |
| Total                           | <u>\$18,416.5</u>   | <u>100.00%</u>                |                       |

Source: Los Angeles Fire & Police Pensions March 31, 2016 Performance Report.

### **Accounting and Financial Reporting Standard**

In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions (“GASB 68”), which applies to governmental entities such as the City, and Statement No. 67, Financial Reporting for Pension Plans (“GASB 67”), which applies to the financial reports of most pension plans such as LACERS and FPPP.

GASB 67 revised existing guidance for the financial reports of most pension plans, including LACERS and FPPP. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of “Fiduciary Net Position” (the amount held in a trust for paying retirement benefits, generally the market value of assets) and a statement of changes in Fiduciary Net Position, and requires additional note disclosures and required supplementary information. LACERS and FPPP complied with the provisions of GASB 67 by its effective date (i.e., financial statements for Fiscal Year 2013-14). Most of the reporting requirements of GASB 68 related to the Net Pension Liability are included in the note disclosures and required supplementary information of the Pension Plans.

GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the City. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans’ Fiduciary Net Position and their long-term obligation for pension benefits as a liability (“Net Pension Liability”), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the “entry age” actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note

disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual City employer pension contributions, which continue to be determined actuarially by each plan.

The City complied with the provisions of GASB 68 by its effective date (i.e., its financial statements for Fiscal Year 2014-15). In broad terms, the most significant change contained in GASB 68 is the requirement to report a Net Pension Liability on the employers' Government-Wide Statements of Net Assets when the fair value of pension assets falls short of actuarially calculated liabilities. See "NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Adoption of New GASB Pronouncements" in the City's CAFR for the Fiscal Year ending June 30, 2015. As a result of GASB 68, the Total Net Position of Governmental Activities fell from \$5,171,370,000 as of June 30, 2014 to a deficit of \$536,792,000 as of June 30, 2015. As GASB 68 moves pension reporting in the City's government-wide financial statements away from the phased or smoothed asset and liability figures that the City uses in determining its annual pension contribution, the City expects that these changes will increase year-to-year volatility in reported pension assets and liabilities.

GASB 67 and GASB 68 address the disclosure of pension liability only; they do not impose any funding requirements, and the City does not expect to alter the way the City funds these liabilities. The City expects to continue to fully fund the pension at the amount recommended by the Pension Systems and their actuaries to finance annual normal costs and to amortize its unfunded liabilities consistent with current practice.

#### **Other Post-Employment Benefits**

Retired members and surviving spouses and domestic partners of LACERS and FPPP members are eligible for certain subsidies toward their costs of medical and other benefits. These benefits are paid by the respective retirement system. These retiree health benefits are accounted for as "Other Post-Employment Benefits" ("OPEB").

The City began making payments to its Pension Systems to pre-fund its OPEB obligations in Fiscal Year 1989-90, in an amount then determined by the Pension Systems and their actuaries. For the four years beginning Fiscal Year 2007-08, less than the ARC was contributed to the FPPP, primarily reflecting the phasing in of increases in assumed medical cost. The calculations of OPEB funding requirements are made by the same actuaries that perform the analysis of the Pension Systems' retirement benefits, and generally rely on the same actuarial assumptions, other than those assumptions such as medical inflation specific to OPEB.

[Remainder of page intentionally left blank.]

As of June 30, 2015, the unfunded healthcare benefits liabilities of LACERS and the FPPP are as follows:

**Table B-24**  
**Other Post-Employment Benefits**  
**Los Angeles City Employees' Retirement System**  
**(Dollars in Thousands)**

| <b>Actuarial Valuation As of June 30</b> | <b>Actuarial Value of Assets</b> | <b>Actuarial Accrued Liability (AAL)</b> | <b>Unfunded AAL<sup>1</sup></b> | <b>Funded Ratio<sup>2</sup></b> | <b>Covered Payroll<sup>3</sup></b> | <b>Unfunded AAL As a Percentage of Covered Payroll<sup>4</sup></b> |
|--|----------------------------------|--|---------------------------------|---------------------------------|------------------------------------|--|
| 2007                                     | \$1,185,544                      | \$1,730,400                              | \$544,856                       | 68.5%                           | \$1,896,609                        | 28.7%  |
| 2008                                     | 1,342,920                        | 1,928,043                                | 585,123                         | 69.7                            | 1,977,645                          | 29.6   |
| 2009                                     | 1,342,497                        | 2,058,177                                | 715,680                         | 65.2                            | 1,816,171                          | 39.4   |
| 2010                                     | 1,425,726                        | 2,233,874                                | 808,148                         | 63.8                            | 1,817,662                          | 44.5   |
| 2011                                     | 1,546,884                        | 1,968,708                                | 421,824                         | 78.6                            | 1,833,392                          | 23.0   |
| 2012                                     | 1,642,374                        | 2,292,400                                | 650,027                         | 71.6                            | 1,819,270                          | 35.7   |
| 2013                                     | 1,734,733                        | 2,412,484                                | 677,751                         | 71.9                            | 1,846,970                          | 36.7   |
| 2014                                     | 1,941,225                        | 2,662,853                                | 721,628                         | 72.9                            | 1,898,064                          | 38.0   |
| 2015                                     | 2,108,925                        | 2,646,989                                | 538,065                         | 79.7                            | 1,907,665                          | 28.2   |

<sup>1</sup> Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

<sup>2</sup> Actuarial value of assets divided by actuarial accrued liability.

<sup>3</sup> Annual payroll against which UAAL amortized.

<sup>4</sup> UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuations.

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**Table B-25**  
**Other Post-Employment Benefits**  
**Fire and Police Pension Plan**  
**(Dollars in Thousands)**

| Actuarial<br>Valuation<br>As of June 30 | Actuarial<br>Value of<br>Assets | Actuarial<br>Accrued<br>Liability<br>(AAL) | Unfunded<br>AAL <sup>1</sup> | Funded<br>Ratio <sup>2</sup> | Covered<br>Payroll <sup>3</sup> | Unfunded<br>AAL As a<br>Percentage of<br>Covered<br>Payroll <sup>4</sup> |
|---|---------------------------------|--|------------------------------|------------------------------|---------------------------------|--|
| 2008                                    | \$ 767,647                      | \$1,836,840                                | \$1,069,193                  | 41.8%                        | \$1,206,589                     | 88.6%  |
| 2009                                    | 809,677                         | 2,038,659                                  | 1,228,982                    | 39.7                         | 1,357,249                       | 90.6   |
| 2010                                    | 817,276                         | 2,537,825                                  | 1,720,549                    | 32.2                         | 1,356,986                       | 126.8  |
| 2011                                    | 882,890                         | 2,557,607                                  | 1,674,716                    | 34.5                         | 1,343,963                       | 124.6  |
| 2012                                    | 927,362                         | 2,499,289                                  | 1,571,927                    | 37.1                         | 1,341,914                       | 117.1  |
| 2013                                    | 1,013,400                       | 2,633,793                                  | 1,620,393                    | 38.5                         | 1,367,237                       | 118.5  |
| 2014                                    | 1,200,874                       | 2,783,283                                  | 1,582,409                    | 43.2                         | 1,402,715                       | 112.8  |
| 2015                                    | 1,344,333                       | 2,962,703                                  | 1,618,370                    | 45.4                         | 1,405,171                       | 115.2  |

<sup>1</sup> Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.

<sup>2</sup> Actuarial value of assets divided by actuarial accrued liability.

<sup>3</sup> Annual payroll against which UAAL amortized.

<sup>4</sup> UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. The City negotiated bargaining agreements that will reduce the City's contributions for OPEB benefits, which include a 4% active employee contribution toward retiree healthcare for 99% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 71% of its eligible workforce (representing 64% of the sworn workforce). Employees who elected to contribute will have their current retiree health benefits and any future subsidy increases vested. For those civilian bargaining units and sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011.

Two lawsuits are pending that challenge the City's actions relative to freezing OPEB benefits: *Jack Fry, Gary Cline, Sandra Carlsen, Yvette Moreno, and Los Angeles Retired Fire & Police Association, Inc. v. City of Los Angeles*; and *Los Angeles Police Protective League v. Board of Fire and Police Pension Commissioners v. City of Los Angeles*.

### **Projected Retirement and Other Post-Employment Benefit Expenditures**

The table below illustrates the City's projected contributions to LACERS for the next four fiscal years, assuming no change to the actuarial assumptions used by LACERS' actuary for the actuarial valuation as of June 30, 2015. These contributions illustrate the projected cost of both pension and OPEB under the existing assumptions. These projections reflect the actuarial assumptions described above.

**Table B-26**  
**Los Angeles City Employees' Retirement System**  
**Projected Contributions**  
**(Dollars in Thousands)**

|   | <b>Adopted<br/>Budget<br/>2016-17</b> | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> | <b>2020-21</b> |
|---|---------------------------------------|----------------|----------------|----------------|----------------|
| LACERS  |                                       |                |                |                |                |
| Contributions for<br>Council-Controlled<br>Departments <sup>1,2</sup> | \$459,400                             | \$482,112      | \$507,205      | \$528,850      | \$539,830      |
| Percentage of Payroll <sup>3</sup>                                    | 28.13%                                | 28.14%         | 28.64%         | 29.08%         | 29.23%         |
| Incremental Change  | \$24,761                              | \$22,712       | \$25,093       | \$21,645       | \$10,980       |
| % Change  | 6%                                    | 5%             | 5%             | 4%             | 2%             |

<sup>1</sup> Includes the General Fund and various special funds.

<sup>2</sup> Assumes 7.50% return on investment.

<sup>3</sup> Reflects combined rates for all benefit tiers.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the LACERS actuary and or City actuary commissioned by the City Administrative Officer.

The table below illustrates the City's projected contributions to FPPP, including the projected cost of pension and other post-employment benefits, for the next four fiscal years, based on an illustration provided by FPPP's actuary using the plan's assumed rate of return of 7.5%. These contributions include the projected cost of other post-employment benefits. These illustrations, which are based on the June 30, 2015 actuarial valuation, reflect the deferred investment gains/losses from the previous years, the actuarial assumptions described above, and certain benefit enhancements implemented with the adoption of the Tier 5 plan in 2002. Future savings from the Tier 6 pension plan for future sworn hires are not reflected in these estimates. Savings will occur as current active employees are replaced by new employees in Tier 6.

**Table B-27**  
**Los Angeles Fire and Police Pension Plan**  
**Projected Contributions\***  
**(Dollars in Thousands)**

|                       | <b>Adopted<br/>Budget<br/>2016-17</b> | <b>2017-18</b> | <b>2018-19</b> | <b>2019-20</b> | <b>2020-21</b> |
|-----------------------|---------------------------------------|----------------|----------------|----------------|----------------|
| General Fund          | \$616,234                             | \$643,939      | \$649,232      | \$695,070      | \$699,008      |
| Percentage of Payroll | 44.54%                                | 45.03%         | 44.16%         | 45.62%         | 45.13%         |
| Incremental Change    | \$(7,180)                             | \$27,705       | \$5,293        | \$45,838       | \$3,938        |
| % Change              | (1%)                                  | 5%             | 0.8%           | 7%             | 0.6%           |

\* Assumes 7.50% return on investment.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the FPPP actuary commissioned by the City Administrative Officer.

**APPENDIX C**

**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

[To Be Provided by Nixon Peabody]

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Harbor Department of the City of Los Angeles (the “Department”) in connection with the issuance by the Department of its Refunding Revenue Bonds, 2016 Series A, in the aggregate principal amount of \$\_\_\_\_\_ (the “Series 2016A Bonds”), its Refunding Revenue Bonds, 2016 Series B, in the aggregate principal amount of \$\_\_\_\_\_ (the “Series 2016B Bonds”) and its Refunding Revenue Bonds, 2016 Series C (Green Bonds) in the aggregate principal amount of \$\_\_\_\_\_ (the “Series 2016C Bonds,” and together with the Series 2016A Bonds and the Series 2016B Bonds, the “Series 2016 Bonds”). The Series 2016 Bonds are being issued pursuant to an Indenture of Trust, dated as of October 1, 2016 (the “Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Trustee”). The Department hereby covenants and agrees as follows:

**Section 1. Purpose of this Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Owners and beneficial owners of the Series 2016 Bonds and in order to assist the Participating Underwriter in complying with the Rule.

**Section 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 hereof.

“Beneficial Owner” shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2016 Bonds (including persons holding Series 2016 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2016 Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the Department, acting in its capacity as Dissemination Agent hereunder, or any other successor Dissemination Agent designated in writing by the Department.

“EMMA System” shall mean the MSRB’s Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

“Fiscal Year” shall mean the one-year period ending on June 30 of each year or such other period of 12 months designated by the Department as its Fiscal Year.

“GASB” shall mean the Governmental Accounting Standards Board.

“Listed Events” shall mean any of the events listed in Section 5(a) or 5(b) hereof.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

“Obligated Person” means the Department, and any successor thereto.

“Official Statement” shall mean the final official statement of the Department relating to the Series 2016 Bonds.

“Owner” shall mean a registered owner of the Series 2016 Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2016 Bonds required to comply with the Rule in connection with offering of the Series 2016 Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the Securities and Exchange Commission.

“State” shall mean the State of California.

### **Section 3. Provision of Annual Reports.**

(a) The Department shall, or shall cause the Dissemination Agent, if the Dissemination Agent is other than the Department, to, not later than six months following the end of each Fiscal Year of the Department (which Fiscal Year currently ends on June 30), commencing with the report for Fiscal Year 2016, provide to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB, an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 hereof, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 hereof; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the Department changes, the Department shall give notice of such change in the same manner as for a Listed Event under Section 5(e) hereof.

(b) If in any year, the Department does not provide the Annual Report to the MSRB by the time specified above, the Department shall instead file a notice with the MSRB through the EMMA System in substantially the form attached as Exhibit A hereto.

(c) If the Dissemination Agent is not the Department, the Dissemination Agent shall:

1. file a report with the Department certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing the date(s) of the filing(s); and
2. take any other actions mutually agreed to between the Dissemination Agent and the Department.

**Section 4. Content of Annual Reports.** The Annual Report shall contain or incorporate by reference the following:

(a) The Department’s audited financial statements for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by GASB and all statements and interpretations issued by the Financial Accounting Standards Board which are not in conflict with the statements issued by GASB. If the Department’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Information in form and substance similar to Tables 1, 2A, 2B, 3, 5, 9, 10, 11, 12, 13 and 14 set forth in the Official Statement for the most recently completed Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities, that have been submitted to the MSRB through the EMMA System.

In the event that information necessary to prepare the tables listed above becomes unavailable due to changes in accounting practices, legislative changes or organizational changes, the Department shall state in its Annual Report that such table will no longer be included in the Annual Report and the reason therefore. Comparable information shall be provided if available.

### **Section 5. Reporting of Significant Events.**

(a) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016 Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions, issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

(b) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016 Bonds, if material, not later than ten business days after the occurrence of the event:

1. Non-payment related defaults;
2. Unless described in paragraph 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2016 Bonds or other material events affecting the tax status of the Series 2016 Bonds;
3. Modifications to rights of the Owners of the Series 2016 Bonds;
4. Series 2016 Bond calls;
5. Release, substitution or sale of property securing repayment of the Series 2016 Bonds;
6. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Department shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a) hereof, as provided in Section 3 hereof.

(d) Whenever the Department obtains knowledge of the occurrence of a Listed Event described in Section 5(b) hereof, the Department shall determine if such event would be material under applicable federal securities laws.

(e) If the Department learns of an occurrence of a Listed Event described in Section 5(a) hereof, or determines that knowledge of a Listed Event described in Section 5(b) hereof would be material under applicable federal securities laws, the Department shall within ten business days of occurrence file a notice of such occurrence with the MSRB through the EMMA System in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(4) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2016 Bonds pursuant to the Indenture.

**Section 6. Customarily Prepared and Public Information.** Upon request, the Department shall provide to any person financial information and operating data regarding the Department which is customarily prepared by the Department and is publicly available at a cost not exceeding the reasonable cost of duplication and delivery.

**Section 7. Termination of Obligation.** The Department's obligations under this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or payment in full of all of the Series 2016 Bonds. In addition, in the event that the Rule shall be amended, modified or repealed

such that compliance by the Department with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the Department's obligations hereunder shall terminate to a like extent. If such termination occurs prior to the final maturity of the Series 2016 Bonds, the Department shall give notice of such termination in the same manner as for a Listed Event under Section 5(e) hereof.

**Section 8. Dissemination Agent.** The Department may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not any other designated dissemination agent, the Department shall be the dissemination agent. The initial dissemination agent shall be the Department.

**Section 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule. The Department shall give notice of any amendment in the same manner as for a Listed Event under Section 5(e) hereof.

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

**Section 11. Default.** In the event of a failure of the Department to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Series 2016 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed a default under the Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance. Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the Department to comply with this Disclosure Certificate.

No Owner or Beneficial Owner of the Series 2016 Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Department shall have refused to comply therewith within a reasonable time.

**Section 12. Duties, Immunities and Liabilities of Dissemination Agent.** Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the Department and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

**Section 13. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, if any, the Participating Underwriter, and the Owners and

beneficial owners from time to time of the Series 2016 Bonds, and shall create no rights in any other person or entity. This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

**Section 14. Notices.** Any notices or communications to the Department may be given as follows:

Harbor Department of the City of Los Angeles  
425 South Palos Verdes Street  
San Pedro, California 90731  
Attention: Executive Director  
Fax: (310) 831-6936  
Telephone: (310) 732-3827

**Section 15. Partial Invalidity.** If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Department shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the beneficial owners of the Series 2016 Bonds shall retain all the benefits afforded to them hereunder. The Department hereby declares that it would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

**Section 16. Governing Law.** This Disclosure Certificate was made in the City of Los Angeles and shall be governed by, interpreted and enforced in accordance with the laws of the State and the City of Los Angeles, without regard to conflict of law principles. Any litigation, action or proceeding to enforce or interpret any provision of this Disclosure Certificate or otherwise arising out of, or relating to this Disclosure Certificate, shall be brought, commenced or prosecuted in a State or Federal court in the County of Los Angeles in the State. By its acceptance of the benefits hereof, any person or entity bringing any such litigation, action or proceeding submits to the exclusive jurisdiction of the State and waives any defense of forum non conveniens.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Certificate this \_\_\_\_<sup>th</sup> day of October, 2016.

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: \_\_\_\_\_  
Eugene D. Seroka, Executive Director

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Harbor Department of the City of Los Angeles

Name of Bond Issue: Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2016 Series A; Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2016 Series B; Harbor Department of the City of Los Angeles Refunding Revenue Bonds, 2016 Series C (Green Bonds)

Date of Issuance: October [\_\_], 2016

CUSIP: 544552\_\_\_\_

NOTICE IS HEREBY GIVEN that the Harbor Department of the City of Los Angeles (the “Department”) has not provided an Annual Report with respect to the above referenced Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated October [\_\_], 2016, executed by the Department for the benefit of the Owners and beneficial owners of the above referenced Series 2016 Bonds. The Department anticipates that the Annual Report will be filed by \_\_\_\_\_, 20\_\_.

Dated: \_\_\_\_\_

HARBOR DEPARTMENT OF THE CITY OF LOS ANGELES

By: \_\_\_\_\_  
Authorized Representative

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**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

[To Be Provided by Nixon Peabody]

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## APPENDIX F

### BOOK-ENTRY-ONLY SYSTEM

#### Introduction

Unless otherwise noted, the information contained under the caption “—General” below has been provided by DTC. The Department makes no representations as to the accuracy or the completeness of such information. The Beneficial Owners of the Series 2016 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE DEPARTMENT NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2016 BONDS UNDER THE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2016 BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE TO THE OWNERS OF THE SERIES 2016 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2016 BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

#### General

DTC will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2016 Bond certificate will be issued for each maturity of the Series 2016 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Bonds Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA.” The

DTC Rules applicable to Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). The Department has not undertaken any responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on the websites described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites.

Purchases of the Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

While the Series 2016 Bonds are in the book-entry-only system, redemption notices will be sent to DTC. If less than all of the Series 2016 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department, the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and

Indirect Participant and not of DTC, the Trustee or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Department. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2016 Bonds are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2016 Bonds will be printed and delivered to the registered holders of the Series 2016 Bonds.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but neither the Department nor the Underwriters take any responsibility for the accuracy thereof.

**BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF SERIES 2016 BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE DTC PARTICIPANTS.**

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